

Massachusetts Electric Company
and
Nantucket Electric Company

Response to Request for
Comments on:

Provision of Default Service

August 9, 2002

Submitted to:
Massachusetts Department of
Telecommunications and Energy
Docket D.T.E. No. 02-40

Submitted by:



COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation into the Provision of Default Service) Docket D.T.E. 02-40

COMMENTS BY
MASSACHUSETTS ELECTRIC COMPANY
AND
NANTUCKET ELECTRIC COMPANY

Introduction and Executive Summary

These comments by Massachusetts Electric Company and Nantucket Electric Company (together, “Mass. Electric”) respond to the Department’s Notice of Inquiry in the above proceeding (“Notice”). In the Notice (pages 5-6, footnotes omitted), the Department suggests that a “competitive market is developing to serve both large and medium commercial and industrial (“C&I”) customers,” but that “an active competitive market has not yet developed for small C&I and residential customers.” Mass. Electric agrees with the Department’s assessment. Accordingly, the bulk of our comments will focus on the issues facing the smaller customers on Mass. Electric’s system.

As we describe in the first section below, the Department’s inquiry in this proceeding presents significant policy issues. We need to act now if we are to implement an improved program for service for residential and small commercial customers following the expiration of the standard offer. The second section of the comments identifies two different approaches to the future supply of default service that the parties

have developed in discussions preceding the Department's investigation in this case. The Division of Energy Resources ("DOER") has focused on improvements to wholesale default service now provided by the state's distribution companies, and Mass. Electric has focused on developing a retail alternative to default service. Both of these approaches have advantages over today's approach to default service. The Department should move forward with either of the alternative approaches. In the third section of these comments, Mass. Electric sets forth in detail its proposal for a retail supplier provided "basic service" as an alternative to default service, and suggests an initial procurement program covering residential and small commercial default service customers before the end of the standard offer to test the concept. If the initial procurement program were successful, Mass. Electric would propose to follow it with a second procurement program at the end of the standard offer. The fourth section of the comments sets forth the findings that we request from the Department to implement the retail alternative, and addresses the legal issues associated with the transfer of customer accounts to retail suppliers in the context of our basic service proposal. Finally, we respond to the Department's specific requests for comments in the context of the retail and wholesale approaches to default service, and set forth our recommendations for larger commercial and industrial customers.

I. The Department's Investigation Is Both Timely and Appropriate

The Department's investigation in this proceeding provides an opportunity for a careful evaluation of the policies associated with the procurement and supply of default service. The evaluation should begin with a review of the programs that are working and those that are not. The analysis shows different results for different customer groups.

A. The Retail Market for Large Commercial and Industrial Customers
Is Developing

As the Department recognized in its notice, the market for large commercial and industrial customers in Massachusetts has made significant strides over the past several months and seems to be working. The Department's initiatives in Docket No. D.T.E. 01-54 that extended customer lists and information, together with the size, purchasing sophistication, and economics of the larger customers and Mass. Electric's New Choices program, are beginning to provide our largest customers with several meaningful alternatives in the marketplace and reduce the significance of default service as a supply option. As shown on page 1 of Attachment 1, there are 863 or 29.8 percent of Mass. Electric's G-3 customers, representing 46 percent of the load in the class, and 2,150 or 14.1 percent of its G-2 customers, representing 18.6 percent of the load in that class, are today served by the competitive market. These figures have both increased dramatically over the last year as shown on Attachment 1, pages 4 (Mass. Electric) and 5 (Massachusetts as a whole).

The percentages are even more significant if standard offer customers (who are recognized to have an attractive supply arrangement) are eliminated from the analysis. As shown on Attachment 1, page 1, 67.3 percent of the G-3 non-standard offer customers (representing 84.5 percent of the non-standard offer G-3 load) are being served by a competitive supplier.¹ Similar statistics for Rate G-2 are 43.7 percent of the non-standard offer customers and 52.8 percent of the non-standard offer load.

¹ These figures do not reflect the G-3 customers who remain on default service and arrange a financial hedge (for example, a contract for differences), rather than an alternative physical supply of electricity. Mass. Electric has no statistics on these customers, but the financial hedges are equivalent to a competitive supply alternative and their use tends to understate the movement to the market.

This successful development of the Massachusetts market is confirmed by switching statistics reported by other retail access states. Today, Massachusetts is among the leaders in the country in the percentage of large commercial and industrial loads switched to the competitive market. Comparative data for commercial and industrial load switching are set forth in Attachment 1, page 6.

These statistics indicate that the competitive market, as enhanced by the Department's initiatives and Mass. Electric's New Choices program, is working for our large customers, and that these customers do in fact have an array of reasonable alternatives in the competitive marketplace. For example, we now have six suppliers and six brokers participating in our New Choices program, all providing several meaningful competitive power supply alternatives to our large commercial and industrial accounts. See <http://www.masselectric.com/bus/newchoices/index.htm>.

B. The Retail Market for Residential and Small Commercial Customers Is Not Developing

The figures are not as good for residential customers and small commercial and industrial customers ("C&I") served on Rate G-1. Today, Mass. Electric provides approximately 280,000 residential customers and 40,000 small C&I customers with default service. These figures represent 26.6 and 33.1 percent of the customers served under residential and small C&I rates, respectively, and 21.2% and 31.2% of energy deliveries, respectively. Only 8,404 or 0.8 percent of the residential customers and 9,396 or 7.6 percent of the small C&I customers are receiving generation service from the competitive market as of July 2002. Moreover, many of the small C&I accounts that have moved to the market are part of larger organizations that have procured power for

an array of buildings or represent a single transaction for a major group of small accounts. For example, a cable television operator has switched about 3,900 accounts to a competitive supply in a single transaction. Nearly all of the accounts are individual cable system transformers that are attached to Mass. Electric's distribution system. Other than transactions of this kind, typical small businesses served on Rate G-1 today have relatively few supply options other than default or standard offer service. As of the date of this filing, Mass. Electric is aware only three active suppliers for small businesses served on Rate G-1 and one active supplier for residential customers registered in our New Choices program.

Moreover, default service has historically not been an attractive option. During the period since December 1, 2000 when default service has been priced separately from standard offer service, the prices for default service have been consistently higher and more volatile than for standard offer service, reaching over nine cents per kilowatthour for the six-month average price between May and October 2001. The figures are shown on Attachment 1, page 7.

C. Better Supply Options Are Necessary for Residential and Small Commercial Customers

Thus, the Department's inquiry in this proceeding is both timely and important. We need to develop better options for residential and small commercial customers. Continued short-term wholesale purchases by Mass. Electric under the current practice will not be adequate when the standard offer expires. The short-term wholesale market is too uncertain, and the consequences of short-term wholesale price fluctuations when applied to all of Mass. Electric's residential and small commercial customers are too

severe. Unlike the large C&I customers, Mass. Electric's residential and small commercial default service customers have had few meaningful choices in the market place. Thus, absent action now, nearly all of our 1.2 million residential and small commercial customers will be taking default service as their primary power supply option available after the standard offer expires.

This approach is simply not acceptable. We need to take action now to assure that these customers have better options--either through an improved design of default service as currently procured by distribution companies in the wholesale market or through the creation of additional meaningful supply options in the retail market place.

II. Two Approaches Can Be Used to Improve Default Service

Several interested parties have been discussing default service issues and evaluating different approaches to that service following the end of the standard offer. Mass. Electric has focused on developing a more robust market for retail service for residential and small commercial customers that we will discuss more fully below. As an alternative, the DOER has developed a proposal with significant improvements to the current method of wholesale procurement process that is designed to: (a) hedge retail prices against wholesale price fluctuations, (b) limit the effect of significant wholesale market disruptions on retail default service prices by using a staggered procurement process, (c) provide retail customers with a forward looking price curve every quarter, and (d) encourage the development of the retail market by including retail supply costs in the wholesale suppliers' prices, allowing wholesale suppliers to use their default service portfolio to convert customers to retail contracts, and requiring wholesalers to provide additional retail services to retail customers.

If the Department does not adopt Mass. Electric's retail market proposal, suggested below, or if the retail proposal does not work to provide benefits to customers, Mass. Electric believes that the DOER proposal is a necessary and an appropriate improvement to the procurement of wholesale default service and should be implemented by the Department. Thus, we believe that the Department is presented with two reasonable choices in this proceeding--the retail approach favored by Mass. Electric and the wholesale procurement improvements suggested by the DOER.²

In our view, either of these approaches is better than failure to act at all. We do not believe the correct approach to default service is to provide customers with a volatile commodity price in the hopes that customers will rebel against volatile and uncertain electricity costs and move to the market as a second best alternative. In our view, we have an important opportunity now to encourage retail suppliers to provide solid basic service and market commodity offerings to our customers, and make the retail market the clearly preferred alternative for our residential and small commercial customers. However, if we are incorrect in our assessment or our approach does not work in practice, the Department should take this opportunity to provide small commercial and residential customers with a reasonably priced default service supply purchased at wholesale by the distribution company. The Department should move forward with a full evaluation of both the DOER proposal and the Mass. Electric proposal in this proceeding.

² Texas Utilities has suggested a third approach, under which the distribution company would provide wholesale delivery service to the commodity supplier, and the commodity supplier would provide the billing and customer service to the retail customer. As explained below, the TXU proposal is inconsistent with current statutory requirements, fails to facilitate entry of new suppliers in Massachusetts, and will not allow a seamless recovery of service in the event of a failure by a default service supplier. Accordingly, we do not support the Texas Utilities proposal.

III. Mass. Electric's Retail-Provided, Basic Service Proposal

Mass. Electric proposes to use the expiration of the standard offer as an opportunity to create a more vigorous retail market for residential and small commercial customers. Specifically, we propose to develop a retail supply alternative to Mass. Electric's continued wholesale procurement of default service, which, if successful, will allow us to exit fully the commodity market. To implement the alternative, we propose to conduct a series of auctions, under which winning suppliers could obtain the rights to serve default service residential and small commercial customers directly at retail under terms and conditions approved by the Department, and at prices that are established as part of the auction process ("initial procurement program" or "initial program"). This new "basic service" would be tested in an initial procurement program for Mass. Electric's current residential and small C&I default service customers and, if successful, would then be extended to all residential and small commercial customers at the end of the standard offer period in accordance with the schedule set forth below.

A. Revisions to Mass. Electric's Basic Service Proposal

Following the hearing and technical session on July 23, 2002 in this proceeding, we have modified our proposal to respond to issues raised, to better address our own concerns for the transition from standard offer service, and to provide assurance that the retail option provides measurable benefits—with little, if any, downside risk—when compared to wholesale procurement of the same service. The revisions are noted below.

1. Schedule

The first concern that we have addressed is the schedule. At the hearing, we suggested a schedule under which our initial procurement program would be approved by

November 15, 2002 and implemented in March of 2003. The initial procurement program would then continue through February of 2005, at which time the customers in the program would be included with standard offer customers in a new procurement process.

Following further consideration, we have realized that this schedule requires modification. The schedule leading to a November 15, 2002 approval by the Department is too short for such an important policy debate. We should provide the time in this proceeding necessary to develop consensus or to have a full airing of the parties' policy differences in the event that consensus cannot be achieved. Thus, we have eliminated the March 1, 2003 proposed start date for the initial procurement program and suggest commencement of the program 90 days after the Department's approval of the program in this or a Mass. Electric specific proceeding.

We would, however, suggest that the Department schedule a series of further technical sessions after the reply comments have been filed in this proceeding to explore and narrow the issues. Mass. Electric would then expect to make a filing in compliance with the policy agreements developed or to provide an opportunity for parties to litigate a final proposal. This approach will allow time for a full evaluation of the issues associated with this case and will allow the parties to evaluate the impact of the changes to the market rules in New England on the commodity markets. However, the approach will also lead to a later start date for the initial procurement program.

2. End Date of Procurements

We have also reconsidered the end date of our initial procurement program proposal, the second concern with our proposal outlined at the hearing. One of the key

issues associated with the end of the standard offer is the significant procurement that is required either by Mass. Electric (and other distribution companies) or by retail suppliers in the wholesale market. During the course of our discussions with retail marketers, the suppliers have confirmed our assessment that the liquidity in the New England wholesale market is best maintained by limiting procurements to about 200 megawatts. One of Mass. Electric's key objectives in this proceeding is to develop a procurement process under which all expiring standard offer service does not come up for auction at a single time. Specifically, we seek to spread our procurements at the end of the standard offer and thereafter to limit the risk that a market dislocation, high fuel prices, or capacity shortages cause a market spike just at the time when we or retail suppliers are purchasing a major portion of our customers' supply requirements.

The DOER proposal mitigates the potential for these effects by setting forth a series of small procurements at regular intervals. We agree strongly with this approach. Accordingly, we have modified the end periods of our proposed procurements in the initial procurement program to stagger them in advance of the end of the standard offer, and prevent the end of the initial procurement program from exacerbating an already serious cliff effect in our wholesale purchasing requirements. We now propose to end the basic service contracts during the billing months of April, July, and October 2004, as part of the transition to smaller quarterly procurements leading to the end of the standard offer.

3. Inclusion of Wholesale Procurement Option

The schedule changes and the comments at the technical session have also led us to reconsider the role of the pilot program included in our proposal. Quite simply, we

will not have sufficient time to implement a pilot program, fully evaluate its results, make modifications, and implement a revised full-scale program by the end of the standard offer. We need to develop a more permanent solution with flexibility built in to make adjustments and modifications as we move toward that end state.

Accordingly, we have added a feature that is designed to meet some of the key issues raised in the proceeding. Specifically, we are proposing to accept wholesale bids for basic service to supply default service customers that will be the same in all respects to the retail basic service, but will not involve a retail switch of the customer account. This approach is designed to (1) test whether the retail supply option provides benefits to customers from the outset (as suggested by the Attorney General); (2) allow wholesale suppliers to continue to participate in Mass. Electric's power supply without assuming retail responsibilities (as suggested by some wholesale suppliers); (3) provide Mass. Electric with access to wholesale suppliers in the event that there are insufficient acceptable bids from retail suppliers (a key concern of ours that is necessary to assure that our proposal works under adverse market conditions); and (4) fully integrate the initial procurements into the purchasing program after the end of the standard offer (making the plan more attractive to retail suppliers than a simple pilot program with no assurance of its continuance).

Despite the change to include the wholesale option, our proposal remains centered on developing the retail market as a vital and valuable alternative to continued wholesale procurements by Mass. Electric. The potential benefits for customers from retail suppliers are now beginning to be realized for our largest customers. We believe that

there is now an opportunity to extend these benefits to smaller customers as well. Our proposal to develop that opportunity is set forth below.

B. Proposed Retail Basic Service for Default Service Customers Prior to the End of the Standard Offer

Our proposal creates an option for retail suppliers to participate in the auction of the power supply needs of our residential and small commercial default service accounts. Under our initial procurement program, we are proposing to focus on our residential and small commercial customers currently taking default service or who will become eligible for default service prior to the end of the standard offer.

As noted earlier, the supply under the initial procurement program would become effective ninety days after the Department's approval. The contracts, terms, and conditions necessary to implement the initial procurement program for retail suppliers are set forth in Attachment 2 to these comments. Two basic transactions are involved for retail suppliers. First, we have proposed an agreement between Mass. Electric and the retail supplier, under which Mass. Electric authorizes the retail supplier to provide basic service directly to a defined group of retail customers and agrees to provide the retail supplier with metering, billing, customer service, and collection services associated with basic service. The agreement itself is short and the key features of the transaction are incorporated in the Terms and Conditions for Basic Service Suppliers that are attached to the agreement and would be approved by the Department. Second, and also incorporated in the first agreement, are the terms and conditions under which the retail supplier will provide basic service to its retail customers. Basic service would be the successor to

Mass. Electric's default service, and would be approved by the Department in all respects.

As explained above, we are now proposing to allow wholesale suppliers to bid in the auction for basic service and to provide basic service on a wholesale basis. The terms and conditions of the wholesale service would be identical to the retail basic service set forth below with the exception that there would be no the transfer of the customer accounts to the wholesale supplier. Mass. Electric would thus remain the retail customer's supplier of generation service. However, the wholesale supplier would assume the bad debt risk of retail customers and, accordingly, would receive only the portion of payments from retail customers associated with the wholesaler's winning bid that was actually paid to Mass. Electric by the customers in the wholesaler's auction block. Thus, a wholesale supplier would be subject to the same bad debt risk as a retail basic service provider. In addition, the wholesale supplier would be subject to migration risk for customers leaving basic service. Mass. Electric would not perform any marketing to retain the retail customers that are served under the wholesale option. The implementation of the wholesale option requires a wholesale contract between Mass. Electric and the wholesale supplier, and terms and conditions for Mass. Electric's basic service customers that would be similar to those of the other retail basic service suppliers set forth in Attachment 2.

1. The Auction Process

In this and the following sections of our comments, we will summarize the key features of the auction process that will determine the winning suppliers and the retail price for basic service. We expect that the contracts and terms for basic service, whether

provided by Mass. Electric through a wholesale supply or by retail suppliers directly, would be reviewed and approved by the Department before the auctions take place. As a result, the retail bidders would all be offering to provide basic service to Mass. Electric's eligible default service customers under the same contract with Mass. Electric and on the same terms and conditions to retail customers, terms that would also apply to Mass. Electric's basic service if a wholesale supplier won the bid. Only the bid price, which is paid to the supplier, would vary in the contracts with retail suppliers. Wholesale suppliers, who contract directly with Mass. Electric, would be paid on the same basis as the retail suppliers, that is, they would be paid the price they bid and they would receive the actual payments from customers.

Mass. Electric would hold three separate auctions for residential customers currently served under default service or who may become eligible for default service during the term of the initial procurement program, and a fourth auction for all small commercial customers served under Rate G-1, who are or will become eligible for default service. For each auction, bidders will be asked to bid a flat cents-per-kilowatthour price for basic service during the specified term of the supply contract. During the initial procurement program, Mass. Electric plans to specify basic service contract terms that end three, six, and nine months prior to the end of Mass. Electric standard offer supply contracts, or in April, July, and October of 2004. Mass. Electric will select the lowest price bid by a qualified wholesale or retail bidder for each auction, provided that no supplier may win more than one residential auction (a winner of a residential auction may also win the small C&I auction).

2. Setting the Retail Basic Service Price and Crediting the
Margin

Under our proposal, Mass. Electric will charge all basic service customers the highest of the winning bid prices received in the four auctions over the term of the initial procurement program. Winning suppliers will only be paid the price that each supplier bid for the entire term of its basic service contract.

Mass. Electric will separately account for the difference, or margin, if any, between the basic service retail rate that Mass. Electric bills all basic service customers and the basic service bid prices paid to winning bidders. Mass. Electric proposes to apply this margin to the group of customers who give rise to it. Specifically, in the initial procurement program, Mass. Electric proposes to credit the balance in the margin account to residential and Rate G-1 customers who are not served under the standard offer using a flat cents-per-kilowatthour credit regardless of the customer's basic service supplier ("retail value credit"). This method credits the benefit to the customers who are eligible for basic service and directly attributes the value received from the auction to those customers. Giving the credit to all customers in the eligible group, whether the customer moves to a market alternative or not, limits the potential distortion that could otherwise occur in the basic service supply customer's decision to move to a market contract. For example, if the credit were only given to customers who stay on basic service, the loss of the basic service customer's credit when moving to the market would create a disincentive for that customer to leave basic service and enter a contract with a competitive supplier. Finally, if the procurement program is extended beyond the end of

the standard offer, the retail value credit would apply to all residential customers and all small C&I customers served under Rate G-1.

The retail value credit would be reset every time that the basic service retail rate or the basic service bid prices changed, leading to a change in the margin that was collected by Mass. Electric. Thus, if no customers in the class were taking service from a competitive supplier, the retail value credit would immediately transfer the margin received by Mass. Electric back to the participating customers in the class, producing a total bill that would be the same as that produced by an average-cost based price for basic service for participating customers without a retail value credit. Total bills would be the same as those produced by averaging the bids received, setting a lower basic service retail rate, but offsetting the lower basic service retail rate with a higher delivery rate caused by the elimination of the retail value credit. However, the approach proposed here sets a market price for commodity equal to the highest of the winning bids awarded and thus creates an incentive and margin for customers to move to the competitive market.

Under our proposal, the collection of the margin by Mass. Electric ends when the basic service customer moves from basic service to a market contract. Thus, the proposal includes a built in incentive for the winning basic service suppliers to convert customers to competitive service. Moreover, unlike today's wholesale procurement procedure, the basic service supplier will be able to use the power supply that was initially contracted for basic service to meet conversions by retail basic service customers to competitive contracts. Thus, suppliers will be able to develop a reasonably sized, hedged portfolio to meet their basic service obligations, and immediately use the portfolio to build their

market share in competitive contracts. This process will also benefit customers, who will receive contracts priced below basic service retail rates in the competitive market.

The proposed approach has an additional advantage for the development of the retail market. The retail price for basic service is always set at the highest of the winning bids under an outstanding contract for service. This assures that no basic service supplier is forced to sell electricity to customers at a price below its bid. In addition, it prevents the phenomenon that has been experienced in several states, in which a relatively high initial “price to beat” was subsequently overtaken by a lower market price for last resort service, causing all the customers to return to the distribution company. Addressing this issue is essential to the development of a stable retail market. Retail suppliers, who cannot be expected to provide an unhedged commodity service, will always risk being undermined by an average-priced last resort service procured by the utility. The hedged power supply, which works wonderfully when the market price increases, creates losses and customer migration when the market falls. Because an array of market conditions will occur over the long term, the competition against average-priced last resort service leads to a high risk of loss for the hedged commodity supplier.

This issue has led to the exit of retail suppliers from many states. It is addressed in our proposal by maintaining the basic service retail rate at the highest of the winning bids currently reflected in the distribution company’s basic service portfolio. The result is a market determined, basic service retail rate benchmark that should support the development of a competitive market for participating customers.

We realize that this proposal presents its own issues. Under this approach, the basic service retail rate will be higher, and potentially considerably higher, than would

occur if the bids were averaged as in the DOER model. There are several responses to this issue. First, the more robust retail market facilitated by the higher backout credit may well provide customers with commodity options that fall well below basic service retail rate. Although the pricing approach creates additional margin that is available to be shared between retail suppliers and their customers in a competitive contract, the competitive forces operating in a more robust retail market should assure an appropriate allocation to customers. Moreover, the competitive pressures produced by a vibrant retail market should produce new approaches to creating value and reducing costs, producing net economic gains for all customers as a group. The benefits produced by these competitive pressures provided the underlying rationale for utility restructuring in the first place. Second, if the retail market does not develop, customers are no worse off. The customers would remain on basic service and the full margin would be credited back to participants. Any increases in commodity prices would be fully offset by reductions to delivery charges. Moreover, if our experience in the initial procurement program or during later procurements indicates that the retail market is not working and only wholesale suppliers are submitting bids and winning basic service auctions, we would retain the flexibility to return to average cost commodity pricing. There is no need to maintain the higher back out credit contemplated under this pricing approach, if it does not work to stimulate the development of a retail market. In short, the proposed basic service model does not affect Mass. Electric's ability to revert to the wholesale only model in the event that the retail market does not develop in a satisfactory manner.

A further issue with the proposal is that it may leave behind customers, who are unable to find an alternative supply. If all the low risk customers move to the

competitive market, the higher risk customers will be left paying higher commodity costs with a diminished credit in the delivery charge. We believe that this phenomenon should be carefully monitored, and that we should develop protections for customers who continue to have limited options to leave basic service. One solution is already incorporated in the Restructuring Statute. Under G.L. c. 164, § 1F(4)(i), distribution companies must guarantee payment to the generation supplier for all power sold to low-income customers served under discounted rates. This provision assures that Mass. Electric's low-income customers served under Rate R-2 are not discriminated against on credit grounds. Programs of this kind could be extended or the retail value credit could be reallocated, if experience indicates that the group of customers remaining on basic service is the subject of unreasonable discrimination in the market place.

3. Transition to the Standard Offer Procurement Program

Under our proposal, the term of the basic service contracts signed during the initial procurement program will have staggered termination dates including April 2004, July 2004, and October 2004. At the end of each contract, the customers remaining on basic service will be subject to reassignment by Mass. Electric after a new auction. The second auction would occur as part of the auctions to procure basic service for the residential and small commercial customers who had been served under the expiring standard offer.

Specifically, we expect that Mass. Electric will hold a series of auctions in 2004 for basic service contracts that will become effective in January and March of 2005 to replace our wholesale contracts for standard offer supplies. Mass. Electric proposes to retain the flexibility to alter the length and terms of these auctions depending upon our

experience in the initial procurement program, then current market conditions, and the need for consistency with any new policies that may be developed by the Department or the legislature governing default service.

Much of the information about the initial procurement program will be known the day we open the bids. We hope and expect that customers will receive immediate benefits through the auction process in the initial procurement program. More benefits may occur as the retail market develops following the auction and customers are drawn to competitive contracts that produce lower costs and additional value. If these benefits are realized and the initial procurement program is a success, Mass. Electric would expect to implement a standard offer procurement plan that includes a similar auction process for its residential and small commercial customers who are currently being served under the standard offer.

4. The Mass. Electric/Retail Supplier Agreement

The key agreement that is necessary to implement the retail supplier's participation in basic service is the contract between the supplier and Mass. Electric. A proposed agreement is included in Attachment 2. As indicated in the agreement, the initial procurement program would commence ninety days after the Department's order approving the program, and would continue through April, July, or October 2004. Under the program, all of Mass. Electric's residential and small commercial customers served under default service on or after the effective date would be served by basic service suppliers, unless a wholesale supplier won the bid. Residential customer accounts would be assigned a number from 1 to 3 that would determine their basic service supplier, using a protocol that is designed to produce statistically similar classes. Small C&I customers

served under Rate G-1 would all be assigned the number 4. During the billing month following the effective date, the pre-identified customer accounts pertaining to a numbered block would be transferred to the basic service suppliers who won the block on the customer's metering reading dates. If a wholesale supplier won the bid, the accounts would remain with Mass. Electric. We would complete the transfers for each customer on its meter reading date as it occurred throughout the billing month.

Mass. Electric would bill all basic service customers the same basic service retail rate, based on the highest of the winning bids in the auctions. Suppliers, on the other hand, would be paid the amounts received from basic service customers associated with the price that they bid. As indicated above, Mass. Electric would retain the difference, or margin, and return it through a retail value credit, a flat cents-per-kilowatthour credit to the delivery rates for residential and small commercial customers, who are not served under the standard offer. Payments received from basic service customers will be allocated between basic service suppliers and Mass. Electric using the pro-rata procedures approved by the Department in Docket No. D.T.E. 01-28 (Phase 2).

Basic service suppliers agree to provide all-requirements, load following service to the basic service customers in the auction. Basic service suppliers agree to bear all charges and costs associated with energy, capacity, ancillary services, losses, uplift, congestion, and renewable energy under the Massachusetts renewable energy portfolio standards, and to abide by the terms and conditions for basic service suppliers included in Attachment 2. Basic service suppliers also agree to make no charges to Mass. Electric or its basic service customers for basic service beyond the prices included in their bids. Suppliers must be (1) registered with the Department and be a licensed Competitive

Supplier, (2) either an ISO-NE member or have in place an agreement with an ISO-NE member, under which the ISO-NE member includes the load served by the supplier in the member's Load Asset Calculation, and (3) attend electronic business transactions ("EBT") training. Basic service suppliers agree to provide financial security in a form acceptable to Mass. Electric and at a predetermined amount. The security is callable in the event of a default by the basic service supplier and would be used by Mass. Electric to mitigate the costs of replacing the supplier.

Mass. Electric will provide all metering, billing, transaction processing, customer service, and collections services for basic service suppliers at no incremental cost to the supplier.³ The basic service supplier will not have the option to bill basic service separately from the delivery charges. Rather, Mass. Electric will bill basic service customers at the basic service retail rate, include the basic service charge on a separate

³ Texas Utilities suggested at the hearing that suppliers, rather than distribution companies should assume responsibility for billing, customer service, and collections from retail customers. Mass. Electric disagrees with this approach for basic service for several reasons. First, it could leave the distribution company and its customers in the lurch should the supplier fail. Under Mass. Electric's proposal recovery is seamless—customers are switched back to Mass. Electric upon a supplier's collapse and Mass. Electric continues to supply electricity at the retail basic service price. Second, the proposal does not assure that customer protections are applied consistently to all retail customers. Mass. Electric's proposal assures that customer protections are not adversely affected by the retail auction process. Third, the TXU proposal creates a barrier to entry for start up retailers, who must develop a complete billing system and customer service operation prior to entering the retail market. Mass. Electric's proposal avoids these costs. Fourth, the TXU proposal will lead to duplicate systems and increased costs. Distribution companies would undoubtedly be required to stay in the billing and customer service business and maintain their infrastructure for those customers who are not adequately served in the retail market, but will be deprived of the economies of scale. Fifth, the TXU approach would disrupt one of the central issues of restructuring on Massachusetts has demonstrated success. We have been able to implement customer switching quickly (within two days), accurately, and efficiently. Our success has not been matched by many other jurisdictions. On the contrary, the restructuring process in other jurisdictions has been seriously impeded by poor customer service, inaccurate bills, inability to switch customers, and improper terminations. The clearest case is associated with Atlanta Gas Light that was documented in the report to the governor of Georgia. Final Report of the Governor's Blue Ribbon Natural Gas Task Force, (February 5, 2002). However, problems have occurred in every jurisdiction including Texas and the United Kingdom where the responsibility for billing has been changed as part of the restructuring process. Finally, the TXU approach is inconsistent with G.L.c. 164, s. 1D, which provides only two billing options, the first, a single bill by the distribution company for both the delivery and supply components of the bill, and the second, two separate bills by the distribution company and the supplier, each for their respective charges. The Statute does not authorize a single bill by the supplier as contemplated by the TXU model.

page in the bill that is included in Mass. Electric's billing envelope, identify the basic service supplier with name, address, telephone number, e-mail address, and logo (in black and white) on the supplier's page, and include bill inserts for the supplier's environmental disclosure label and basic service terms and conditions for retail customers. Mass. Electric will also perform load estimating and reporting for the basic service supplier, process all payments from customers, and provide the supplier with transactions on their basic service customers usage and billing information in accordance with EBT standards. Finally, Mass. Electric will act as the exclusive collection agent for basic service charges. Basic service suppliers are prohibited from undertaking any credit or collection activity against basic service customers, and waive their rights to challenge settlements by Mass. Electric with customers. This assures that all of Mass. Electric's customers are treated similarly for credit and collections in accordance with the Department's rules and regulations for such activities.

The contract also includes special provisions for low-income customers. As indicated above, Mass. Electric will reimburse the basic service supplier for accounts that are more than two monthly cycles in arrears. In addition, Mass. Electric puts the supplier on notice that it may transfer Rate R-2 customers to the basic service supplier, if the transfer would benefit the R-2 customers.

Mass. Electric is authorized to terminate the contract in the event that the supplier loses its license to be retail supplier in Massachusetts, is unable to maintain its status with ISO-NE necessary to serve the basic service customers, goes out of business or bankrupt, or breaches the contract or fails to perform in compliance with the basic service terms and conditions. In the event of such termination, Mass. Electric would seek to re-auction

the customers to other retail or wholesale suppliers. The agreement may be assigned with the consent of Mass. Electric and the approval of the Department.

5. Terms and Conditions for Basic Service with Retail Customers

The terms and conditions for basic service between the retailer and the retail customer are simple and straightforward. The retail supplier agrees to provide commodity service at the basic service retail rate (excluding sales taxes), of which the basic service supplier gets paid the basic service bid price, and not to include any further charges to the retail customer. The retail supplier notifies the customer that the customer may find an alternative supplier at any time. The supplier also makes clear that Mass. Electric is its agent for billing and collections, that it will abide by any settlements between the customer and Mass. Electric, and that the customer's complaints are subject to review by the Department. Finally, the supplier notifies the customer of its limits on liability, the customer's right to inquire about eligibility for a low-income rate applicable to the delivery charges on its bill (but not the basic service charges), and the right to assign the contract with the consent of Mass. Electric and the approval of the Department.

6. The Wholesale Alternative

As explained above, Mass. Electric will also give bidders the option to supply basic service to Mass. Electric at wholesale. In that event, the supply requirements and payment terms will be identical. However, Mass. Electric will continue to provide the retail service to customers. The wholesale contract and basic service terms and conditions will be consistent with the wholesale contracts that Mass. Electric has used in the past, modified to reflect the changes associated with basic service.

7. Costs and Savings Associated with the Basic Service Proposal

The implementation of the basic service proposal by Mass. Electric will require the Company to incur additional costs for enhanced information and billing systems, and will also produce a reduction in bad debts for Mass. Electric associated with the transfer of bad debt responsibility on the commodity portion of the bill from the distribution company to the wholesale or retail supplier. In addition, Mass. Electric will face some potential for increased costs in the event of a failure by a supplier that requires Mass. Electric to cover the supplier obligations to the supplier's customers at the basic service retail rate.

The process for recovering the additional costs or passing through the savings is set forth in Mass. Electric's rate settlement, and the settlement produces different outcomes, depending on the cost or saving category. Mass. Electric's current rate settlement has a provision that covers legislative or regulatory changes and requires Mass. Electric to adjust its distribution rates "for the effect of any legislative or regulatory changes which impose new or modify existing obligations or duties which individually affect Mass. Electric's costs by more than \$1.0 million per year."

Massachusetts Electric Co., Rate Plan Settlement, Docket No. D.T.E. 99-47, p. 11 (Nov. 29, 1999).

Mass. Electric believes that the allocation of bad debts or administrative costs to wholesale suppliers under the wholesale approach as suggested by the Notice, would be a change in regulation that would trigger an exogenous factor change if the amount were over \$1.0 million per year. Thus, although we agree that the provision would apply to wholesale transactions, we do not believe that this provision applies to bad debts

allocated to retail suppliers under our proposal. Retail suppliers have always been responsible for bad debt expenses under our settlement. Mass. Electric simply did not commit to indemnify any other suppliers bad debts, except those for R-2 customers as required under our initial restructuring agreement and the Restructuring Law. Rather the savings or costs associated with slow or fast customer migration to the market was a risk allocated in the settlement. Accordingly, we do not believe that the additional administrative costs or the bad debt savings associated with this migration when it actually occurs warrants an adjustment under our rate plan settlement.

Finally, we believe that the potential for costs associated with a supplier failure under the procurement program set forth above represents a cost that is directly associated with the supply of basic service. Accordingly, we propose to deduct any unmitigated costs associated with a failure of a supplier under the basic service procurement program directly from the retail value credit that would otherwise be flowed through to customers in the delivery component of the bill. Any remaining unrecovered costs associated with the failure of a basic service supplier would subsequently be recovered from all customers under an annual basic service cost reconciliation provision.

IV. Department Findings Necessary to Implement the Retail Basic Supply

Service Proposal

A. The Wholesale Option

Mass. Electric's proposed default service procurement program would allow suppliers to bid at either wholesale or retail to gain the right to provide basic service to Mass. Electric's customers. The wholesale option includes variations from today's practice that may be appropriate to encourage the development of the market even if the

retail supply of basic service were not allowed. Under the wholesale option, a winning bidder would be (1) assigned the responsibility to supply a subset of Mass. Electric's customers, rather than all of the customers in the class; (2) required to bid a single price for electricity supply, rather than a price that varies from month to month; (3) required to bid for periods of up to two years in the standard offer procurement program if conditions warrant, rather than current practice that limits procurements to a single year; (4) responsible for all losses down to the customer's meter; and (5) paid only its allocable portion of amounts actually received by Mass. Electric from retail basic service customers assigned to the supplier. In addition, customers would be charged a basic service retail rate based on the market price determined by the highest of the winning bidders in a series of auctions, rather than a price determined in a single auction for each six-month period determined under today's practice.

Each of these changes is clearly within the Department's discretion to implement under the statute. First, the Department has already found that it can segment customers by rate class for default service procurement. Notice, p. 4; Docket No. D.T.E. 99-60-B, pp. 13-14. The Department also has the authority to authorize the segmentation of the customer classes into smaller groups for procurement purposes. The smaller blocks of customers are necessary to efficiently purchase the power requirements of default service customers after the end of the standard offer. At that time, the monthly megawatt-hours of supply needed to serve residential default service customers will more than quadruple from 155,260 megawatt-hours today to 724,200 megawatt-hours after the end of the standard offer (based on July 2002 deliveries). The segmentation of these purchases into smaller increments is a reasonable response to a change in conditions that will further

efficient purchasing of the power supplies required for default service. Moreover, if the Department approves the retail procurement suggested by Mass. Electric, the smaller segments are necessary to facilitate entry by smaller suppliers in the market.

Second, the Department has allowed bidders to bid and distribution companies to accept equal monthly bids across the procurement period. In this case, Mass. Electric is requesting authority to require bidders to bid a flat price across all months in the procurement period. This is again a response to the change in circumstance. The flat prices allocate to suppliers the risk and reward of managing their portfolios to meet new requirements under the ISO's market rules, FERC's standard market design, and the DOER's renewable portfolio standards. A straightforward price stream is also necessary to develop the single retail price from a series of purchases for supplies to similar customers as proposed for basic service. Finally, the flat price across the period would be limited to residential and small commercial customers. These customers are not likely to game basic service by switching to that service in higher cost months and signing contract supplies for the lower months. The basic service suppliers would have no incentive to engage in gaming of this kind for their own basic service customers because they are responsible for power supplies under both basic and contract services.

Third, the Department's policy already allows flexibility to extend default service procurements beyond one year when conditions warrant the extension. Massachusetts Electric Co., Docket No. D.T.E. 00-67 (2000). As discussed at the outset, following the expiration of the standard offer, new conditions are likely to warrant longer-term purchases and better hedges for residential and small commercial customers. The increased load and economic risk associated with repeated short-term purchases for major

commitments in the wholesale market suggests longer-term contracts of smaller amounts are reasonable for residential and small commercial customers after the expiration of the standard offer whether the retail or wholesale procurement option is followed.

Finally, we believe that the basic service retail rate determined as set forth above is consistent with the default service statute. Section 1B(d) provides that: “The distribution company shall procure such service thorough competitive bidding; provided, however, that the default service rate so procured shall not exceed the average monthly market price of electricity; and provided, further, that all bids shall include payment options with rate that remain uniform for periods of up to six months.” The key issue for this purpose is the determination of the “market price.” Mass. Electric proposes to define the market price as the highest of the winning bidders with contracts outstanding for the relevant period. As explained above, this is the price that clears the supply obligation; any lower price would force a winning bidder to sell below its bid price. Accordingly, we believe that the retail basic service price when applied to the procurement of several blocks within a single customer class, at either wholesale or retail, is reasonably included within the definition of “market price” within the statute.

B. The Retail Option

The remaining issues outstanding are first, whether the Department has the authority under the statute to authorize the retail auction option, and second, whether the Department should exercise this authority to approve the retail auction proposed by Mass. Electric.

1. The Department's Statutory Authority

The Department's statutory authority to approve Mass. Electric's initial procurement program is set forth in the default service section of the Restructuring Statute. G.L. c. 164, § 1B(d), provides in part that: "The department may authorize an alternate generation company or supplier to provide default service, as described herein, if such alternate service is in the public interest." The statute could not be clearer; the Department has the authority to allow an alternative supplier to provide default service to distribution company customers. The alternative plan must be "in the public interest," which is a policy issue that we will discuss in the next section of these comments, but will assume for the purposes of discussing the Department's statutory authority. Under a direct reading of the relevant section of the statute then, the Department would have the authority to move directly to the public interest inquiry and approve Mass. Electric's retail basic service proposal if the Department found that it was consistent with its policy objectives. Mass. Electric's proposal is nothing more than a proposal to allow "an alternate generation company or supplier to provide default service." The Department should have the clear authority to consider and approve the program.

The only ambiguity stems from the Restructuring Act's careful and stringent provisions preventing the slamming of customers or transfer to a market supplier without the retail customer's consent. The anti-slamming provisions of the statute are found in G.L. c. 164, § 1F(8). It states that: "Each customer choosing a generation company or its affiliate, subsidiary, or parent company, or a supplier or aggregator shall be required to affirmatively choose such entity. It shall be unlawful for a generation company, supplier or aggregator to provide power or other services to such a customer without first

obtaining said affirmative choice from the customer.” Under Mass. Electric’s proposal, Mass. Electric will be transferring default service customers to retail suppliers without the customer’s affirmative choice. The statute is apparently inconsistent with the provisions of the default service section that allows an alternate generation company or supplier to provide default service with the Department’s approval. This apparent inconsistency has caused some to argue that Mass. Electric’s proposal is inconsistent with the Restructuring Statute.

The argument ignores the fundamental difference between default service—a service which is fully regulated by the Department and under which the customer by definition has exercised no choice, and the unregulated market contract—a voluntary service, which is based on the customer’s evaluation of alternatives in the market place and free choice of a supply, and which is subject to limited Department oversight and regulation. In the latter context, the anti-slamming provisions assure that the customer maintains the benefit of his or her bargain, a bargain that was freely entered into without the Department’s regulatory oversight. In the former case, no bargain has been made, and the Department maintains its traditional role as the agency that has the responsibility for regulating the transaction and assuring that all features of it are in the public interest.

This fundamental distinction allows the Department to construe the two sections of the statute consistently. The anti-slamming provisions simply do not apply to the distribution company’s transfer of default service obligations to an alternative supplier. The customer did not pick the distribution company in the first place, and the Department may authorize the transfer of accounts to another supplier when that transfer of that regulated service is in the public interest. In contrast, the anti-slamming provisions

apply four square to the customer's choice to move from regulated default or basic service to a voluntary contract, and between two contract suppliers in the market. This is the only reading of the two sections that gives full effect to the provisions of both. The argument that the anti-slamming provisions in section 1F(8) preclude the transfer of default service supply under section 1B(d) renders meaningless the above-quoted sentence in section 1B(d) that expressly allows that arrangement.

In short, it is clear that the Department can authorize the implementation of Mass. Electric's initial procurement program, if it finds it to be in the public interest. The anti-slamming provisions of the statute do not apply to the transfer of retail accounts to basic service suppliers for fully regulated service under Mass. Electric's proposal.

2. The Public Interest Standard

Given that the Department has authority to approve the initial procurement program under the statute, the second and more interesting question is whether the Department should approve it as in the public interest. We think the Department should. The procurement program as refined in these comments and as it may continually be improved in the further discussions in this case presents important advantages to customers. First, as now structured, it is guaranteed to produce savings over the wholesale alternative. If the retail basic service bid prices are above the wholesale alternatives, the retail bids will not be selected. Second, customers will benefit further by the development of a vigorous competitive retail market with contracts priced below the basic service retail rate, and value added services provided by the new retail entrants. Third, customer protections are fully maintained for basic service customers through Mass. Electric's continued role as billing, customer service, and collections agent.

Finally, the program protects customers in the event of the failure of the market or the failure of individual suppliers. By accepting wholesale and retail bids, Mass. Electric does not exclusively rely on the development of a robust retail market for residential and small commercial customers. By retaining the billing data and customer service functions, Mass. Electric is in a safe position to transfer customers back and provide seamless service in the event of a default by a retail supplier. By maintaining flexibility for modifications at the end of the standard offer, Mass. Electric retains the option to develop new approaches in the event that the initial procurement program results do not provide the expected benefits.

In short, we have attempted to design a program that will encourage the development of a vigorous market for residential and small commercial customers in our service territory and that will provide better options than the continued short term procurements through the wholesale market. Everyone recognizes that the market for these customers is a challenge. We are proposing it in challenging times for the unregulated energy community. We have hedged our bets in case the program does not work. We have tried to provide customers with a significant upside potential with little or no downside risk. We believe that the initial procurement program is in the public interest and should be approved by the Department.

V. Response to Specific Department Questions

In the Notice (page 6), the Department requested comment on three areas. Mass. Electric's responses to those requests are set forth in the following sections.

A. The Price Components to Be Included in Default Rates

The Department first asked parties to comment on the price components that should be include in default service rates, including administrative costs, bad debt costs and the effects of locational marginal pricing. As we have described above, for residential and small C&I customers, we believe that the administrative costs should remain in the delivery component of Mass. Electric's rates, but that bad debt costs and the costs and benefits of locational marginal pricing should be allocated to suppliers.

Our responses on these issues, however, are different for large C&I customers served under Rates G-2 and G-3. We believe that the administrative and general costs should continue to be included in the delivery rates to customers as well, and that bad debt costs should also be included in the delivery rates as long as the default service for these customers is procured at wholesale under short term contracts. This approach avoids the need for wholesale suppliers to perform credit assessments for the large customers that are potentially included in this group of default service customers. Unlike the residential and small commercial customers, which have statistically uniform bad debt characteristics, the large industrial customers could be serious distorted by one or two large customers with credit problems. Maintaining the credit risk with the distribution company avoids that distortion and the variation in the default service prices that would result.

We also suggest a different approach for the effects of locational marginal pricing. Unlike with the small customers, we suggest that the effects of locational marginal pricing be allocated directly to the large C&I customers through different retail default service prices in different zones. Because these customers are mobile, any other

approach would distort the development of the market. If average pricing were adopted for these customers, the customers in the higher cost zones would switch to default service and those in the other zones would exit to the market. The rational development of the market would not be furthered by this approach for these highly mobile customers. Mass. Electric should also be allowed to procure the power for these customers through specific purchases in the relevant zones, when that approach provides a more efficient procurement approach.

1. Default Service Pricing Options

Our proposed pricing options for small customers are set forth above. Based on the successful development of the large C&I market, we do not propose significant changes to the pricing options for the larger customers.

2. Procurement Pricing and Strategies

Other than the procurement of power within zones associated with the implementation of locational marginal pricing discussed above, we do not propose significant changes to purchasing for the large C&I customer group. Our proposals for the smaller customers are set forth at length above.

Conclusion

For the reasons stated, Mass. Electric requests the Department to find that Mass. Electric's proposed initial procurement program is in the public interest, and allow Mass. Electric to implement it for residential customers and small C&I customers

Served on Rate G-1.

Respectfully submitted,

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
By their attorney,

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25 Research Drive
Westborough MA 01582

Attachment 1

Massachusetts Electric Company
Nantucket Electric Company
Percentage of Customers and kWh Deliveries on Competitive Supply
July 2002

	Company	G-3	G-2	G-1	Streetlights	Residentials
No. of Customers on Standard Offer	860,612	1,609	10,330	72,900	704	775,069
kWh Deliveries	1,171,695,541	319,702,760	174,284,708	103,975,992	4,792,853	568,939,228
No. of Customers on Default Service	328,340	420	2,767	40,765	106	284,282
kWh Deliveries	313,985,587	59,221,698	44,606,089	54,254,283	642,832	155,260,685
No. of Customers on Competitive Supply	21,072	863	2,150	9,396	259	8,404
kWh Deliveries	397,151,681	322,356,465	49,871,672	15,415,313	3,220,626	6,287,605
Total Non-Standard Offer Customers	349,412	1,283	4,917	50,161	365	292,686
kWh Deliveries	711,137,268	381,578,163	94,477,761	69,669,596	3,863,458	161,548,290
% of Non-Standard Offer Customers on Competitive Supply	6.03%	67.26%	43.73%	18.73%	70.96%	2.87%
% of Non-Standard Offer kWh Deliveries on Competitive Supply	55.85%	84.48%	52.79%	22.13%	83.36%	3.89%
Total Customers	1,210,024	2,892	15,247	123,061	1,069	1,067,755
kWh Deliveries	1,882,832,809	701,280,923	268,762,469	173,645,588	8,656,311	730,487,518
% of Total Customers on Competitive Supply	1.74%	29.84%	14.10%	7.64%	24.23%	0.79%
% of Total kWh Deliveries on Competitive Supply	21.09%	45.97%	18.56%	8.88%	37.21%	0.86%

Massachusetts Electric Company
Nantucket Electric Company
 Number of Customers on Supply Services
 July 2002

	Total					
	<u>Company</u>	<u>G-3</u>	<u>G-2</u>	<u>G-1</u>	<u>Streetlights</u>	<u>Residentials</u>
<u>Default Service:</u>						
Mass. Electric	324,567	420	2,756	40,281	104	281,006
Nantucket	<u>3,773</u>	<u>0</u>	<u>11</u>	<u>484</u>	<u>2</u>	<u>3,276</u>
	328,340	420	2,767	40,765	106	284,282
<u>Standard Offer:</u>						
Mass. Electric	853,134	1,605	10,288	72,198	702	768,341
Nantucket	<u>7,478</u>	<u>4</u>	<u>42</u>	<u>702</u>	<u>2</u>	<u>6,728</u>
	860,612	1,609	10,330	72,900	704	775,069
<u>Competitive Supply:</u>						
Mass. Electric	21,067	862	2,148	9,394	259	8,404
Nantucket	<u>5</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>0</u>	<u>0</u>
	21,072	863	2,150	9,396	259	8,404
<u>Total</u>						
Mass. Electric	1,198,768	2,887	15,192	121,873	1,065	1,057,751
Nantucket	<u>11,256</u>	<u>5</u>	<u>55</u>	<u>1,188</u>	<u>4</u>	<u>10,004</u>
	1,210,024	2,892	15,247	123,061	1,069	1,067,755

Source: DOER Form 110 for July 2002

Massachusetts Electric Company
Nantucket Electric Company
 kWh Deliveries on Supply Services
 July 2002

	<u>Total Company</u>	<u>G-3</u>	<u>G-2</u>	<u>G-1</u>	<u>Streetlights</u>	<u>Residentials</u>
<u>Default Service:</u>						
Mass. Electric	310,690,909	59,221,698	44,290,887	53,492,975	642,571	153,042,778
Nantucket	<u>3,294,678</u>	<u>0</u>	<u>315,202</u>	<u>761,308</u>	<u>261</u>	<u>2,217,907</u>
	313,985,587	59,221,698	44,606,089	54,254,283	642,832	155,260,685
<u>Standard Offer:</u>						
Mass. Electric	1,164,071,146	319,232,200	173,320,918	102,623,252	4,775,721	564,119,055
Nantucket	<u>7,624,395</u>	<u>470,560</u>	<u>963,790</u>	<u>1,352,740</u>	<u>17,132</u>	<u>4,820,173</u>
	1,171,695,541	319,702,760	174,284,708	103,975,992	4,792,853	568,939,228
<u>Competitive Supply:</u>						
Mass. Electric	396,857,557	322,151,465	49,791,332	15,406,529	3,220,626	6,287,605
Nantucket	<u>294,124</u>	<u>205,000</u>	<u>80,340</u>	<u>8,784</u>	<u>0</u>	<u>0</u>
	397,151,681	322,356,465	49,871,672	15,415,313	3,220,626	6,287,605
<u>Total</u>						
Mass. Electric	1,871,619,612	700,605,363	267,403,137	171,522,756	8,638,918	723,449,438
Nantucket	<u>11,213,197</u>	<u>675,560</u>	<u>1,359,332</u>	<u>2,122,832</u>	<u>17,393</u>	<u>7,038,080</u>
	1,882,832,809	701,280,923	268,762,469	173,645,588	8,656,311	730,487,518

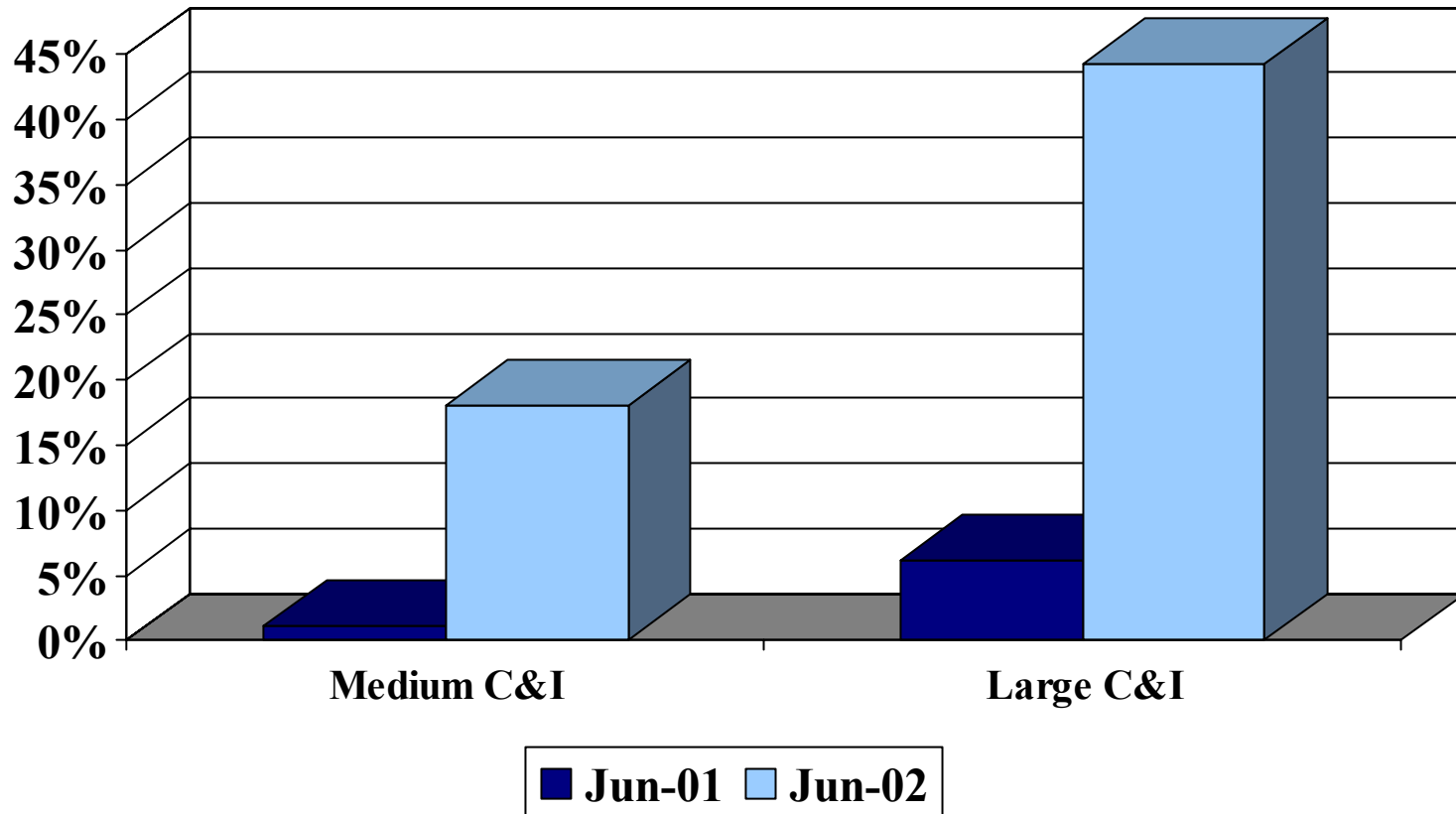
Source: DOER Form 110 for July 2002

**Massachusetts Electric Company
Nantucket Electric Company**
Rate G-2 and G-3 No. of Customers and kWh Deliveries on Supply Services

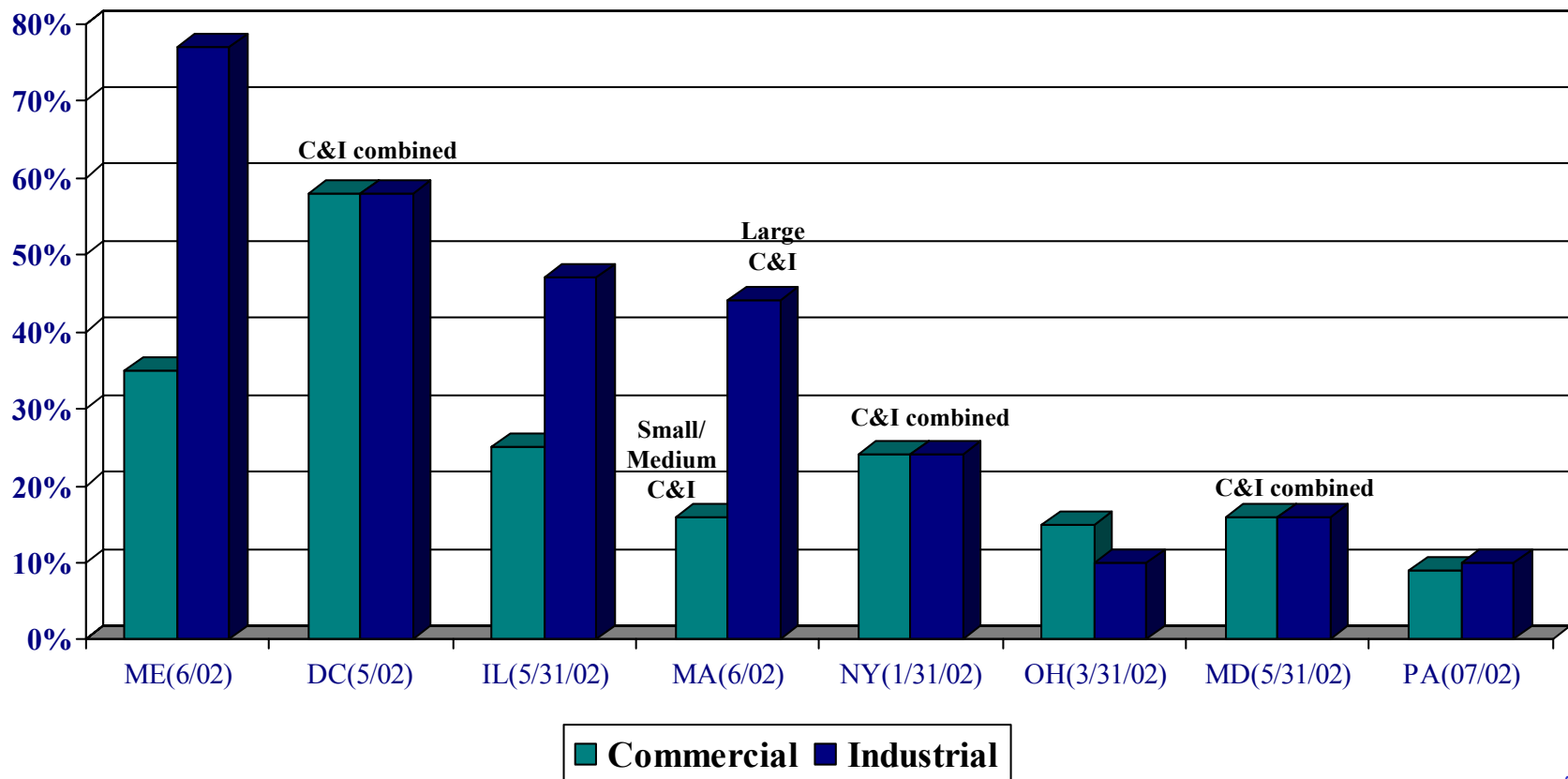
	2001					2002						
	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>
Rate G-2:												
<u>No. of Customers</u>												
Default Service	3,112	3,044	3,011	2,825	2,769	2,753	2,765	2,776	2,718	2,682	2,689	2,767
Standard Offer	12,054	11,870	11,703	11,332	11,219	11,051	10,849	10,743	10,633	10,538	10,449	10,330
Competitive Supply	<u>351</u>	<u>595</u>	<u>782</u>	<u>1,337</u>	<u>1,550</u>	<u>1,732</u>	<u>1,924</u>	<u>2,014</u>	<u>2,131</u>	<u>2,225</u>	<u>2,283</u>	<u>2,150</u>
Total	15,517	15,509	15,496	15,494	15,538	15,536	15,538	15,533	15,482	15,445	15,421	15,247
Percent of Total	2.3%	3.8%	5.0%	8.6%	10.0%	11.1%	12.4%	13.0%	13.8%	14.4%	14.8%	14.1%
Percent of Non-Standard Offer	10.1%	16.4%	20.6%	32.1%	35.9%	38.6%	41.0%	42.0%	43.9%	45.3%	45.9%	43.7%
<u>kWh Deliveries</u>												
Default Service	55,012,876	57,917,134	50,519,057	64,992,481	24,269,304	49,712,890	40,554,811	39,216,884	38,841,507	36,553,894	40,521,016	44,606,089
Standard Offer	208,755,260	220,653,536	187,994,072	175,476,097	165,781,637	201,627,156	168,423,787	159,857,795	153,270,198	148,227,088	161,253,275	174,284,708
Competitive Supply	<u>5,211,328</u>	<u>7,749,626</u>	<u>13,344,849</u>	<u>16,792,597</u>	<u>21,916,073</u>	<u>38,852,321</u>	<u>33,856,000</u>	<u>38,313,561</u>	<u>39,642,434</u>	<u>40,416,545</u>	<u>45,992,691</u>	<u>49,871,672</u>
Total	268,979,464	286,320,296	251,857,978	257,261,175	211,967,014	290,192,367	242,834,598	237,388,240	231,754,139	225,197,527	247,766,982	268,762,469
Percent of Total	1.9%	2.7%	5.3%	6.5%	10.3%	13.4%	13.9%	16.1%	17.1%	17.9%	18.6%	18.6%
Percent of Non-Standard Offer	8.7%	11.8%	20.9%	20.5%	47.5%	43.9%	45.5%	49.4%	50.5%	52.5%	53.2%	52.8%
Rate G-3:												
<u>No. of Customers</u>												
Default Service	515	501	475	451	440	440	441	418	411	408	415	420
Standard Offer	1,942	1,878	1,852	1,812	1,789	1,724	1,669	1,647	1,626	1,618	1,609	1,609
Competitive Supply	<u>320</u>	<u>413</u>	<u>472</u>	<u>551</u>	<u>606</u>	<u>686</u>	<u>760</u>	<u>805</u>	<u>845</u>	<u>861</u>	<u>864</u>	<u>863</u>
Total	2,777	2,792	2,799	2,814	2,835	2,850	2,870	2,870	2,882	2,887	2,888	2,892
Percent of Total	11.5%	14.8%	16.9%	19.6%	21.4%	24.1%	26.5%	28.0%	29.3%	29.8%	29.9%	29.8%
Percent of Non-Standard Offer	38.3%	45.2%	49.8%	55.0%	57.9%	60.9%	63.3%	65.8%	67.3%	67.8%	67.6%	67.3%
<u>kWh Deliveries</u>												
Default Service	104,009,134	99,391,309	79,735,086	76,274,445	80,599,598	80,242,704	67,798,543	69,740,943	60,088,072	54,393,882	56,720,514	59,221,698
Standard Offer	447,742,251	446,035,713	410,226,856	387,040,385	363,707,523	387,597,566	330,554,539	314,090,075	291,907,526	300,324,583	308,830,006	319,702,760
Competitive Supply	<u>146,767,341</u>	<u>175,363,962</u>	<u>185,817,144</u>	<u>195,280,329</u>	<u>208,627,208</u>	<u>249,532,377</u>	<u>246,981,942</u>	<u>248,848,357</u>	<u>279,687,967</u>	<u>297,510,159</u>	<u>315,305,320</u>	<u>322,356,465</u>
Total	698,518,726	720,790,984	675,779,086	658,595,159	652,934,329	717,372,647	645,335,024	632,679,375	631,683,565	652,228,624	680,855,840	701,280,923
Percent of Total	21.0%	24.3%	27.5%	29.7%	32.0%	34.8%	38.3%	39.3%	44.3%	45.6%	46.3%	46.0%
Percent of Non-Standard Offer	58.5%	63.8%	70.0%	71.9%	72.1%	75.7%	78.5%	78.1%	82.3%	84.5%	84.8%	84.5%

Source: Monthly DOER Form 110s

Increase in Percent of MA Statewide Electric Load Served Competitively, 6/02 vs. 6/01



Commercial and Industrial Switching Rates (Percent of Total Electric Load Served Competitively)



Notes: These data are not reported on a consistent basis and are therefore not directly comparable between states; data reported by various state commissions, energy offices and consumer advocates

Massachusetts Electric Company
Nantucket Electric Company
 Historic and Current Default Service Rates

	<u>G-3</u>	<u>G-2</u>	<u>G-1</u>	<u>Streetlights</u>	<u>Residentials</u>
March 1998 - December 1998	3.200	3.200	3.200	3.200	3.200
January 1999 - December 1999	3.707	3.707	3.707	3.707	3.707
January 2000 - November 2000	3.800	3.800	3.800	3.800	3.800
December 2000 - April 2001 (*)	5.360	5.360	6.493	6.493	6.370
May 2001 - October 2001 (*)	9.054	9.054	9.556	9.556	9.213
November 2001 - April 2002 (*)	6.787	6.787	7.045	7.045	6.917
May 2002 - October 2002 (*)	5.209	5.209	6.493	6.493	6.203

(*) Represents Fixed Price Option under current Default Service pricing rules.

Attachment 2

BASIC SERVICE AGREEMENT

BASIC SERVICE AGREEMENT

This Agreement made this ____ day of _____, 200_, between Massachusetts Electric Company, a Massachusetts corporation with a principal place of business at 55 Bearfoot Road, Northborough, MA, Nantucket Electric Company, a Massachusetts corporation with a principal place of business at 25 Research Drive, Westborough, MA (Massachusetts Electric Company and Nantucket Electric Company collectively referred to in this Agreement as "Distribution Company"), and _____, a _____ corporation with a principal place of business at _____ ("Basic Service Supplier").

I. Definitions

Any capitalized terms used in this Agreement and not defined herein shall be as defined in the Terms and Conditions for Basic Service Suppliers, which is included in Exhibit 1 and incorporated herein, the Basic Service Supplier's Terms and Conditions for Retail Customers, which is included in Exhibit 2 and incorporated herein, or stated in the M.D.T.E.'s regulations at 220 C.M.R. 11.00.

II. Term

This Agreement shall commence on the Effective Date and shall continue in full force and effect through the Termination on _____, 2004. Notwithstanding the foregoing, the Distribution Company and the Basic Service Supplier agree to abide by all terms of this Agreement until completing processing any transactions that are outstanding at the Termination Date.

III. Basic Service Supplier Registration Information

At least thirty days prior to the Effective Date, the Basic Service Supplier shall provide all information requested in Exhibit 3 attached hereto, and shall notify the Distribution Company of any change in the information contained in Exhibit 3 at least five days prior to the change.

IV. Basic Service: Supply, Pricing, and Payment

A. The Basic Service Supplier shall provide Basic Service to its Basic Service Customers during the Term of this Agreement under the Terms and Conditions for Basic Service Suppliers, which are set forth in Exhibit 1 of this Agreement and incorporated herein, at its Basic Service Bid Price, which equals \$0.0_____ per kilowatt-hour. The Basic Service Supplier acknowledges that the Basic Service Bid Price is not the same as the Basic Service Retail Rate, which initially equals \$0.0_____ per kilowatt-hour, but is subject to adjustment in accordance with the Terms and Conditions for Basic Service Suppliers, and which the Distribution Company charges to Basic Service Customers.

B. The Distribution Company will bill Basic Service Customers the Basic Service Retail Rate and shall reimburse the Basic Service Supplier its proportionate share of the Basic Service Customer's payments in accordance with the Terms and Condition for Basic Service Suppliers.

C. The Basic Service Margin shall be accumulated by the Distribution Company in a separate account and shall be used to reimburse the Distribution Company for any costs incurred by the Distribution Company in excess of the recoveries from a Basic Service Supplier as the result of a Termination Event that occurs during the term of Basic Service. Any Basic Service Margin remaining after the reimbursement of the costs in the prior sentence shall be credited to

non-Standard Offer Service residential and small commercial and industrial (Rate G-1) customers to in accordance with the Distribution Company's Retail Value Credit Provisions. The Basic Service Margin and any charges to it shall be subject to review in the M.D.T.E.'s proceeding on the Distribution Company's annual reconciliation filing.

D. As part of the auction process leading to this Agreement, the Distribution Company assigned all of its existing residential and small commercial default service customers a Basic Service number of 1, 2, 3, or 4, and has defined a protocol to assign a Basic Service number of 1, 2, 3, or 4 to all Basic Service Customers, who become subject to an Enrollment for Basic Service after the Effective Date. Under that protocol, residential customers are assigned the number 1, 2, or 3 in the order that their Enrollment in Basic Service is completed, and small commercial Customers served under Rate G-1 are always assigned number 4. On the completion of Enrollments for existing residential and small commercial Default Service Customers, the Distribution Company will transfer the Basic Service Customer accounts with the Basic Service number of ___ to the Basic Service Supplier using the procedures set forth in the Terms and Conditions for Basic Service Suppliers. During the term of this Agreement, all Basic Service Customers with the Basic Service number of ___ will also be assigned to the Basic Service Supplier.

V. Security

The Basic Service Supplier shall purchase, provide to the Distribution Company, and maintain in place during the term of this Agreement financial security in the amount of \$_____, and in a form acceptable to the Distribution Company.

VI. Force Majeure

Neither party shall be considered in default under this Agreement or responsible in tort,

strict liability, contract or other legal theory to the other party for damages of any description to the extent it is prevented from performing its obligations, in whole or in part, due to an event of Force Majeure. Force Majeure shall include but not be limited to acts of God, earthquakes, fires, floods, storms, strikes, labor disputes, riots, insurrections, acts of war (whether declared or otherwise), acts of governmental, regulatory or judicial bodies, but if and only to the extent that such event or circumstance (i) directly affects the availability of the transmission or distribution facilities of NEPOOL, the Distribution Company or an Affiliate of the Distribution Company necessary to provide service to Basic Service Customers of the Basic Service Supplier and (ii) it is not within the reasonable control of, or the result of the negligence of, the claiming Party, and which, by the exercise of due diligence, the claiming Party is unable to overcome or avoid or cause to be avoided.

VII. Terms and Conditions

The Terms and Conditions for Basic Service Suppliers and Basic Service Supplier's Terms and Conditions for Retail Customers are incorporated by reference and included in Exhibits 1 and 2 to this Agreement. In the event the terms of this Agreement conflict with the Terms and Conditions in those two Exhibits, the Terms and Conditions in the two Exhibits shall control.

VIII. Dispute Resolution

Each party shall provide to the other party in writing the basis for any dispute. Disputes shall be referred to the parties' representatives for resolution. The parties' representatives shall meet and make all reasonable efforts to resolve the dispute. Pending resolution, the parties shall continue to fulfill their obligations under this Agreement in good faith, unless this Agreement has been suspended or terminated as provided in Terms and Conditions for Basic Service Suppliers.

If the parties fail to resolve the dispute within thirty days of receipt of the written basis for the dispute, or such longer period to which the parties mutually agree, the dispute will be filed with the M.D.T.E., which shall resolve it in a timely fashion.

IX. Notice

All notices and other communications shall be sent electronically to the Distribution Company contacts listed on the Distribution Company's website. Notices and other communications to Basic Service Suppliers shall be addressed as shown on Exhibit 3. The parties agree that such written notice, upon confirmation of receipt, shall constitute an acceptable writing.

X. Governing Law

This Agreement is governed by the laws of the Commonwealth of Massachusetts without regard to the conflict of laws in effect therein.

XI. Enforceability

In the event that any portion or part of this Agreement is deemed invalid, against public policy, void or otherwise unenforceable by a court of law, the validity and enforceability of the remaining portions thereof shall otherwise be fully enforceable.

XII. Miscellaneous

This Agreement is the entire agreement between the parties and supersedes all other agreements, communications, and representations; provided that both parties shall be bound by any applicable tariff provisions in effect at the time of this agreement or as may be added or amended in the future.

This Agreement may be amended only by written agreement of the parties.

Paragraph headings are for convenience only and are not to be construed as part of this Agreement.

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same document.

In witness whereof, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date above.

BASIC SERVICE SUPPLIER

By _____

Title _____

MASSACHUSETTS ELECTRIC COMPANY

By _____

Title _____

NANTUCKET ELECTRIC COMPANY

By _____

Title _____

Exhibit 1

TERMS AND CONDITIONS FOR BASIC SERVICE SUPPLIER'S

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY

TERMS AND CONDITIONS FOR BASIC SERVICE SUPPLIERS

1. Applicability

1A. The following Terms and Conditions shall apply to every Basic Service Supplier authorized to do business within the Commonwealth of Massachusetts, and to every Customer and Distribution Company doing business with said Basic Service Supplier.

1B. These Terms and Conditions shall apply to Basic Service.

1C. No agent or employee of the Company is authorized to modify any provision contained in these Terms and Conditions or to bind the Company to perform in any manner contrary thereto. Any such modification to these Terms and Conditions or any such promise contrary thereto shall be in writing, duly executed by an authorized officer of the Company, and subject in all cases to approval of the M.D.T.E., and shall be available for public inspection during normal business hours at the business offices of the Company and at the offices of the M.D.T.E.

2. Definitions

“Basic Service” shall mean the service provided by a Basic Service Supplier or a Distribution Company to a Customer who is not receiving Generation Service from a Public Aggregator, a Competitive Supplier, or Standard Offer Service. Basic Service shall be firm all-requirements, load following service, which shall include generation and/or market procurement and delivery, to the Customer’s Delivery Point, of the portion of the electric capacity, energy and ancillary services required to meet the needs of Basic Service Customers supplied by the Basic Service Supplier. Basic Service shall also include the renewable energy necessary to meet the Basic Service Supplier’s obligations for renewable energy under Massachusetts and federal law. The Basic Service Supplier shall be responsible for all present or future requirements and associated costs for Installed Capability, Energy, Operating Reserves, Automatic Generation Control, losses, uplift costs, congestion charges (unless such congestion charges are imposed on the Distribution Company as a transmission charge by NEPOOL or the ISO-NE), and any other requirements, market products, expenses or charges imposed by NEPOOL or the ISO-NE, as they may be in effect from time to time. The Basic Service Supplier shall also be responsible for all transmission and distribution losses associated with delivery of the electricity to the Basic Service Customer’s meter.

If the Standard Market Design currently planned for NEPOOL, which includes a Congestion Management System and Multi-Settlement System, is implemented during the term of this

Agreement, the Basic Service Supplier shall be responsible for all obligations, requirements, and costs associated with the Basic Service Supplier having the Day-Ahead Load Obligations, Day-Ahead Adjusted Load Obligations, Real-Time Load Obligations, and Real-Time Adjusted Load Obligations at the nodes/zones representing the actual locations of the Customers enrolled in Basic Service. The Basic Service Supplier's associated responsibilities shall include, but not be limited to, Operating Reserves and Net Commitment Period Compensation charges, Emergency Energy charges, and RMR Uplift charges. The Basic Service Supplier shall be responsible for all decisions and data submissions associated with any bids into the market system to manage these obligations. The Basic Service Supplier shall be responsible for all components of any Locational Marginal Prices that the Basic Service Supplier must pay for the delivery of Basic Service. These components include, but are not limited to, the energy, marginal losses, and congestion charges. The Basic Service Supplier, as the entity responsible for paying all Congestion Charges for delivery to the meters of the customers enrolled in Basic Service, will be entitled to receive any Financial Transmission Rights Auction revenues associated with Auction Revenue Rights assigned to such Basic Service load. The Distribution Company will agree to assign, transfer, or pay, as applicable to the Basic Service Supplier any and all proceeds from the auction of such rights that may be allocated to the Distribution Company that are associated with the Basic Service Supplier's Basic Service responsibility.

"Basic Service Bid Price" shall mean the price per kilowatt-hour specified in the Basic Service agreement, which the Distribution Company reimburses the Basic Service Supplier from payments actually received from Basic Service Customers.

"Basic Service Customer" shall mean a residential customer or a small commercial customer served under Rate G-1 of the Distribution Company, who would otherwise be eligible for default service from the Distribution Company under the G.L. c. 164, s. 1B(d) and who has had an Enrollment with a Basic Service Supplier.

"Basic Service Margin" shall mean the difference between the Basic Service Retail Rate and the Basic Service Bid Price.

"Basic Service Supplier" shall mean a winning supplier in the Distribution Company's Basic Service Procurement Program auction, who is providing Basic Service pursuant to the requirements of that Program.

"Basic Service Retail Rate" shall mean the rate charged by the Distribution Company to Basic Service Customers, which equals the greater of (1) the highest winning Basic Service Bid Price of any Basic Service Supplier, who is currently providing Basic Service to Basic Service Customers, or (2) the highest winning wholesale bid from a wholesale supplier of Basic Service to the Distribution Company, which the Distribution Company has under contract for its Basic Service Customers.

"Competitive Supplier" shall mean any entity licensed by the M.D.T.E. to sell electricity to retail Customers in Massachusetts, with the following exceptions: (1) a Distribution Company providing Standard Service, Default Service, and Basic Service to its distribution Customers, and (2) a municipal light department that is acting as a Distribution Company.

"Customer" shall mean any person who obtains Distribution Service at a Customer Delivery Point under one of the Distribution Company's residential tariffs or the Distribution Company's small general service Rate G-1 tariff, who is a Customer of record of the Company.

"Customer Delivery Point" shall mean the Company's meter or a point designated by the Company located on the Customer's premises.

"Default Service" shall mean the service formerly provided by the Distribution Company to a residential or small commercial Customer who was not receiving Generation Service from an Public Aggregator or a Competitive Supplier or Standard Offer Service, in accordance with the provisions set forth in the Company's Default Service tariff, on file with the M.D.T.E.

"Delivery Service Charges" shall mean all non-generation charges appearing on the Company's bill plus the Basic Service Margin.

"Distribution Company" or "Company" shall mean Massachusetts Electric Company or Nantucket Electric Company.

"Distribution Service" shall mean the delivery of electricity to Customers by the Distribution Company.

"EBT Working Group Report" or "Report" shall mean the most recently revised version of the report initially submitted by the Electronic Business Transaction Working Group on October 9, 1997. The Report shall be on file at the M.D.T.E. and posted on the Distribution Company's website.

"Effective Date" shall mean the first scheduled meter read date in the first billing month that begins 90 days after the M.D.T.E.'s approval of Basic Service.

"Enrollment" shall mean: (1) for the Company's existing Default Service Customers, the Customer's actual or estimated meter read date during the first month after the Effective Date of Basic Service; (2) for Customers who become Basic Service Customers after the Effective Date, the date that the Customer begins taking service from the Company; (3) for Customers returning to Basic Service from a Competitive Supplier, the date that the Customer's drop becomes effective; (4) for Customers who would otherwise be served by a Public Aggregator, the date that the Customer opts out of the Public Aggregation; (5) for Customers on the Company's Retail Delivery Service Rate R-2 Low-Income Tariff taking Standard Offer Service, the date the

Customer commences Basic Service; and (6) for Customers who are provided Standard Offer Service at the expiration of the Standard Offer, but not before.

"Generation Service" shall mean the sale of electricity, including ancillary services, such as the provision of reserves, to a Customer.

"ISO-NE" shall mean the Independent System Operator of the New England bulk power system or its successor.

"M.D.T.E." shall mean the Massachusetts Department of Telecommunications and Energy.

"Public Aggregator" shall mean an Aggregator that is comprised of a municipality or a group of municipalities, or duly authorized board or agency thereof that is providing retail load aggregation pursuant to the M.G.L. c. 164, s 134.

"NEPOOL" shall mean the New England Power Pool or its successors.

"ISO-NE PTF" shall mean pool transmission facilities included in the ISO-NE Open Access Transmission Tariff, as amended from time to time, on file, as a tariff with the Federal Energy Regulatory Commission.

"Load Asset Calculation" shall mean the settlement method utilized by ISO-NE for its members, as set forth in the ISO-NE Agreement, as amended from time to time, on file as a tariff with the Federal Energy Regulatory Commission.

"Retail Access Date" shall mean March 1, 1998, unless otherwise determined by the M.D.T.E.

"Standard Offer Service" shall mean the service provided by the Distribution Company for a term of seven years after the Retail Access Date, unless otherwise determined by the M.D.T.E. Availability of this service shall be in accordance with the provisions set forth in the Company's Standard Offer Service tariff, on file with the M.D.T.E.

"Terms and Conditions" shall mean these Terms and Conditions for Basic Service Suppliers as may be amended from time to time.

"Termination" shall mean (1) the actual or estimated meter reading date of each Basic Service Customer during the first billing month after the Termination Date in the Basic Service Supplier's agreement, or (2) the date specified by the Distribution Company when a Termination

Event occurs.

“Termination Date” shall mean the first meter reading date during the billing month at the end of the Basic Service Agreement.

“Termination Event” shall mean the occurrence of any of the following: (a) the Basic Service Supplier’s license to act as a Competitive Supplier, as provided in G.L. c. 164, ss. 1F(1) and 134(a) is suspended, revoked, modified, or not renewed by the M.D.T.E.; (b) the Basic Service Supplier or its agent is unable to maintain the status within NEPOOL required to serve load; (c) the Basic Service Supplier terminates or suspends doing business; (d) the Basic Service Supplier fails to maintain financial security as required under Section V of the Basic Service Agreement; (e) the Basic Service Supplier becomes subject to any bankruptcy or insolvency proceeding under federal or state law, or becomes insolvent, becomes subject to direct control of a transferee, receiver or similar authority, or makes an assignment for the benefit of creditors; or (f) the Basic Service Supplier commits a material breach of any of its obligations under the Basic Service Agreement, these Terms and Conditions, or the Basic Service Supplier’s Terms and Conditions for Retail Customers, and has not cured such breach within fifteen days after receipt of a written notice from the Distribution Company.

3. Obligations of Parties

3A. Customer

Subject to these Terms and Conditions, a Basic Service Customer shall be provided with Basic Service as of the date of the Customer’s Enrollment with a Basic Service Supplier.

The Basic Service Supplier will meet the Basic Service requirements of the Customer, and the Distribution Company shall (1) report the Customer’s hourly electric consumption to the ISO-NE and (2) provide all metering, settlement, information, billing and collection services, on behalf of the Basic Service Supplier.

The Customer may chose to purchase Generation Service from a Competitive Supplier at any time. In the event that the Customer chooses a Competitive Supplier, the Customer shall notify the Competitive Supplier and request Generation Service from that Competitive Supplier, in which case the Competitive Supplier will arrange to switch the Customer from Basic Service to the Competitive Supplier’s Generation Service in accordance with the Company’s Terms and Conditions for Competitive Suppliers.

3B. Distribution Company

The Distribution Company shall, consistent with its Terms and Conditions for Distribution Service and Terms and Conditions for Competitive Suppliers:

- (1) Arrange for or provide (i) regional network transmission service over ISO-NE PTF and (ii) local network transmission service from ISO-NE PTF to the Company's Distribution System for each Customer, unless the Customer otherwise arranges for such service;
- (2) Deliver power over distribution facilities to each Customer Delivery Point;
- (3) Provide customer service and support for Distribution Service and for Basic Service;
- (4) Respond to service interruptions or power quality problems;
- (5) Handle connections and terminations;
- (6) Read meters;
- (7) Submit bills to Customers for Distribution Service and Basic Service in accordance with Section 8A below;
- (8) Address billing inquiries for Distribution Service and Basic Service in accordance with Section 8A below;
- (9) Answer general questions about Distribution Service and Basic Service;
- (10) Report Basic Service Suppliers' estimated and metered loads, including local network transmission and distribution losses, to the ISO-NE, in accordance with Section 11 below;
- (11) Process the electronic business transactions in accordance with Section 5;
- (12) Provide information regarding, at a minimum, rate tariffs, billing cycles, and load profiles, on its Internet website or by alternate electronic means;

- (13) Provide the following information to Basic Service Suppliers: primary customer name, account number, service address, mailing address, and distribution rate; and
- (14) Be the exclusive supplier of Credit and Collections Service for Distribution Service and Basic Service in accordance with Section 9 below.

3C. Basic Service Supplier

- (1) Each Basic Service Supplier must meet the registration and licensing requirements for Competitive Suppliers established by law or regulation and either (i) be a member of ISO-NE subject to a Load Asset Calculation or (ii) have an agreement in place with an ISO-NE member whereby the ISO-NE member agrees to include the load to be served by the Basic Service Supplier in such ISO-NE member's Load Asset Calculation. The Basic Service Supplier shall notify the Distribution Company within 24 hours in writing of any complaint brought before the M.D.T.E. or investigation undertaken by the M.D.T.E. that could result in the suspension, revocation, modification, or non-renewal of the Basic Service Supplier's license as a Competitive Supplier. The Basic Service Supplier shall also notify the Company at least 48 hours in advance of any event that may render the Basic Service Supplier or its agent unable to maintain the status within the ISO-NE required to serve load.
- (2) A Basic Service Supplier shall be responsible for providing Basic Service to meet each of its Customers' needs at the Customer Delivery Point of each of its Customers.
- (3) A Basic Service Supplier shall be required to complete testing of the transactions included in the EBT Working Group Report at least thirty (30) days prior to the initiation of Basic Service to any Customer in the Company's service territory. Such testing shall be in accordance with the rules and procedures set forth in the Report. The Basic Service Supplier shall also be required to complete testing of any updates to the EBT Standards that may be implemented during the term of its contract.
- (4) Each Basic Service Supplier shall be required to enter into a Basic Service Agreement with the Distribution Company. This Agreement must be in place

prior to the Effective Date and at all times during the Basic Service Supplier's provision of Basic Service.

4. Assignment

The Basic Service Supplier may assign its rights and obligations under these Terms and Conditions with the consent of the Distribution Company and the approval of the M.D.T.E. No assignment of these rights and obligations shall relieve the Basic Service Supplier of any of its obligations until such obligations have been assumed by the assignee.

In addition, the Basic Service Supplier may subcontract its obligations to a subcontractor provided that the Basic Service Supplier shall remain fully responsible as a principal for performance of any subcontracted obligations, and shall serve as the point of contact between its subcontractor and the Distribution Company. The subcontractor shall meet the requirements of any applicable laws, rules, regulations, and these Terms and Conditions and the Basic Service Supplier's Term and Condition for Retail Customers. The Basic Service Supplier shall provide the Distribution Company with thirty (30) days prior written notice of any such subcontracting or assignment, which notice shall include such information about the assignee or subcontractor as the Distribution Company shall reasonably require.

5. Initiation and Termination of Basic Service

5A. Initiation of and Transfer from Basic Service

The Distribution Company shall process Enrollments for Customers who will be receiving Basic Service from a Basic Service Supplier. The Distribution Company shall send the Basic Service Supplier a "successful enrollment" transaction, in accordance with the rules and procedures set forth in the EBT Working Group Report. For the Initial Enrollment of Basic Service Customers, Basic Service shall commence on the date of the Customer's actual or estimated meter read date after the Effective Date.

Basic Service Customers shall be free to initiate service with a Competitive Supplier, including a competitive offering by their Basic Service Supplier, at any time. In those instances when a Customer who is receiving Basic Service from a Basic Service Supplier initiates service with a Competitive Supplier (including the Basic Service Supplier's own competitive supply offering), the Competitive Supplier shall submit an "enroll customer" transaction pursuant to the EBT Working Group Report, and the timing of the

termination of Basic Service by the Basic Service Supplier and commencement of Generation Service by the Competitive Supplier shall be governed by Company's Terms and Conditions for Competitive Suppliers.

In those instances when a Customer, who is receiving Generation Service from a Competitive Supplier or Public Aggregator, terminates their agreement with the Competitive Supplier, the Competitive Supplier or Public Aggregator shall submit a "supplier drops customer" transaction, in accordance with the rules and procedures set forth in the EBT Working Group Report. Generation Service shall be terminated on the date of the customer's next scheduled meter read, provided that the transaction was received no fewer than two business days before the scheduled meter read date. The customer will be returned to their previous Basic Service Supplier, or if the customer is new to Basic Service they will be assigned to one of the Basic Service Suppliers.

5B. Customer Moves

A Customer, who moves within the Distribution Company's service territory and was receiving Basic Service prior to the move, shall remain on Basic Service with the Customer's Basic Service Supplier. The Distribution Company shall send a "customer move" transaction to the Basic Service Supplier, in accordance with the rules and procedures set forth in the EBT Working Group Report.

A Customer, who moves into a Distribution Company's service territory, shall be provided Basic Service by the Basic Service Supplier selected pursuant to the methodology set forth in the Basic Service Agreement. The Distribution Company shall process an Enrollment and send the Basic Service Supplier a "successful enrollment" transaction, in accordance with the rules and procedures set forth in the EBT Working Group Report.

5C. Request for Service Subsequent to the Effective Date

Customers requesting new service after the Effective Date shall be provided Basic Service by the Basic Service Supplier selected pursuant to the methodology set forth in the Basic Service Agreement. The Distribution Company shall process an enrollment transaction and send the Basic Service Supplier a "successful enrollment" transaction, in accordance with the rules and procedures set forth in the EBT Working Group Report.

The Company will inform customers that a complete listing of Competitive Suppliers is available via the Internet or the Company will mail a listing to the Customer if desired.

5D. Termination of Basic Service

Basic Service for the Basic Service Supplier shall be terminated at the Termination. At that time, all Basic Service Customers shall be transferred to the Distribution Company or to a new Basic Service Supplier or otherwise as directed by the Distribution Company.

A Basic Service Supplier's right to supply Basic Service Customers shall be terminated or suspended when the Distribution Company provides written notice to a Basic Service Supplier of a Termination Event. When a Termination Event occurs, the Distribution Company shall be authorized without the prior consent of the Basic Service Supplier to: (1) transfer all Basic Service Customer accounts, who are being provided Basic Service by the Basic Service Supplier back to the Distribution Company or to an alternative Basic Service Supplier or otherwise as directed by the Distribution Company; (2) make a presentment on any financial security provided by the Basic Service Supplier under the Basic Service Agreement; and (3) pursue any other remedies at law or in equity as the Distribution Company deems necessary or appropriate. The enumeration of the foregoing remedies shall not be deemed a waiver of any other remedies to which either party is legally entitled.

No delay by the Distribution Company in enforcing any of its rights hereunder shall be deemed a waiver of such rights, nor shall a waiver of one default be deemed a waiver of any other or subsequent default.

When a Termination Event occurs: (1) the Basic Service Supplier's Customers shall be transferred to the Distribution Company or its designee on the date of the default using estimated meter readings; (2) the Distribution Company or its designee shall continue to provide affected Customers with Basic Service at the Basic Service Retail Rate; and (3) the Distribution Company shall include any difference between the Basic Service revenues billed by it or its designee and the actual cost of providing Basic Service, including, but not limited to, the Distribution Company's administrative costs, in its Retail Value Credit Factor calculation.

5E. Other Provisions

The Distribution Company shall send "change enrollment detail" transactions to change any information included on the "enroll customer" transactions, in accordance with the rules and procedures set forth in the EBT Working Group Report.

5F. Optional Enhanced Services

The Distribution Company may offer enhanced services to Basic Service Suppliers or other Competitive Suppliers which are not included in Section 3B. The enhanced services and fees shall be filed with the M.D.T.E. and are included in Appendix A, which may be amended from time to time, and shall be billed consistently with Section 8F. Examples of Optional Enhanced Services include, but are not limited to, extended marketing programs, additional bill inserts or bill messaging on the commodity portion of the bill, or activities that assist the Basic Service Supplier to convert Basic Service Customers to the Basic Service Supplier's competitive contract options.

6. Distribution Service Interruption

6A. Planned Outages

In the event that the loading of the Distribution System, or a portion thereof, must be reduced for safe and reliable operation, such reduction in loading shall be proportionately allocated among all Customers whose load contributes to the need for the reduction, when such proportional curtailments can be accommodated in accordance with good utility practice.

6B. Unplanned Outages

In the event of unplanned outages, service will be restored in accordance with good utility practice. When appropriate, service restoration shall be accomplished in accordance with the Company System Storm Emergency Plan, as may be amended from time to time, on file with the M.D.T.E.

6C. Disconnection of Service

The Distribution Company may discontinue Distribution Service to a Customer in accordance with the provisions set forth in the Terms and Conditions for Distribution Service. The Company shall provide electronic notification, using the "Customer Usage and Billing Information" transaction, to the Customer's Basic Service Supplier upon final billing to the Customer. The Distribution Company shall not be liable for any revenue losses incurred by Basic Service Suppliers as a result of any such disconnection.

Any terminated or disconnected Basic Service Customer that returns to eligibility for

Distribution Service will have Distribution Service reinstated by the Company and will be re-enrolled by the Company with the Basic Service Supplier that served the Customer prior to disconnection.

7. Metering

The Distribution Company shall meter each Basic Service Customer in accordance with applicable tariff provisions. Upon successful enrollment of a Customer by the Company with a Basic Service Supplier, the Company shall schedule meter reads on a monthly cycle.

Each Customer shall be metered or estimated such that the loads can be reported to the ISO-NE for inclusion in the Basic Service Supplier's or other applicable Load Asset Calculation.

8. Billing and Account Administration

The Distribution Company shall provide a single bill, reflecting unbundled charges, including Basic Service, to Basic Service Customers. The Basic Service Supplier shall not have the option to bill Basic Service separately from the Distribution Company. All measured billing determinants provided by the Distribution Company will be based on Distribution Company-owned metering.

8A. Standard Complete Billing Service

Standard Complete Billing Service shall be used for billing Basic Service Customers under these Terms and Conditions, and accordingly the Distribution Company shall issue a single bill for electric service to all Basic Service Customers. The Distribution Company shall, at no charge to the Basic Service Supplier: (1) bill Basic Service Customers at the Basic Service Retail Rate; (2) state Basic Service charges separately from its delivery charges on a separate page of the bill; (3) identify the Basic Service Supplier as the Basic Service Customer's retail electricity supplier; (4) include the Basic Service Supplier's logo (in black and white) on the commodity portion of the bill; (5) include the Basic Service Supplier's name, address, customer service telephone number, and e-mail address on the commodity portion of the bill; (5) include environmental disclosure bill inserts provided by the Basic Service Supplier that detail the emissions associated with Basic Service; (6) include the Basic Service Supplier's Terms and Conditions for Retail Customers as an insert in the first Basic Service bill in lieu of a separate mailing; and (7) include the Basic Service Supplier's billing with the Distribution Company's billing in a single mailing to the Basic Service Customer. The Distribution Company shall provide the Basic Service Supplier with the Basic Service Customer's usage and billing information in accordance with the EBT Standards. Upon

receipt of the Basic Service Customer's payments, the Distribution Company shall send a payment/adjustment transaction to the Basic Service Supplier in accordance with the EBT Standards.

8B. Transaction Processing

Basic Service Customer transactions will be processed in accordance with EBT Standards. These transactions include, but are not limited to, account administration, reporting of Basic Service Customer usage and billing, and reporting of Basic Service Customer payments and adjustments. Any changes in these standard transactions will be in accordance with the EBT Standards.

The Basic Service Supplier shall be responsible for the reporting and payment of all taxes assessed upon Basic Service.

8C. Rendering of Bills

Rendering of bills is the preparation and mailing of statements of the amounts due from the Basic Service Customer for Delivery Service and Basic Service. The statements will be included as part of the regular monthly bill for the Distribution Company's Delivery Service mailed to the Basic Service Customer. The Distribution Company shall include bill inserts for the Basic Service Supplier's Environmental Disclosure Label and the Basic Service Supplier's Terms and Conditions for Retail Customers, which the Basic Service Supplier shall provide to the Distribution Company thirty (30) days prior to the scheduled insert date, at no cost to the Basic Service Supplier, in accordance with a reasonable schedule determined by the Distribution Company that recognizes the space and weight limitations on the bills.

8D. Billing Errors

If either the Distribution Company or the Basic Service Supplier finds a billing error or other miscalculation on a bill or in the usage determinants used to calculate either the Distribution Company's or the Basic Service Supplier's charges, that party shall within sixty (60) days from the date of the Basic Service Customer's statement containing the error, notify the other party in writing or electronically and explain the nature of the error and provide any supporting documentation that may be requested. In the event of an error by the Distribution Company, the Distribution Company shall either: (1) rebill the affected Basic Service Customer reflecting an appropriate adjustment in the Customer's account; or (2) make an appropriate timely adjustment on a subsequent bill sent to the Basic Service Customer. Notwithstanding the foregoing, the Basic Service Supplier

acknowledges that the Distribution Company may send estimated bills to Basic Service Customers in accordance with M.D.T.E. regulations, and such estimated bills shall not be considered billing errors.

8E. Payment Processing

The Basic Service Supplier shall authorize and designate the Distribution Company as its exclusive agent to process payments and apply monies associated with Basic Service. The Distribution Company shall apply the Basic Service Customer's payment in the following order: first to Delivery Service and Basic Service arrears on a pro-rata basis, second to Delivery Service and Basic Service current on a pro-rata basis. The Basic Service Supplier shall be reimbursed based on the Basic Service Bid Price, and the Distribution Company shall retain any Basic Service Customer payments, whether arrears or current, attributable to the Basic Service Margin.

The Distribution Company shall not include any of the Basic Service Customer's preexisting balances from Competitive Suppliers on a newly enrolled Basic Service Customer's account, provided, however, that preexisting default service balances shall be included and allocated to the Distribution Company as a prior arrear in the payment process. Upon posting a received payment to the Basic Service Supplier, the Distribution Company shall notify the Basic Service Supplier prior to the close of the next business day that it has posted that payment, and shall send the payment to the Basic Service Supplier within three (3) business days via an Automated Clearing House transaction to an account specified by the Basic Service Supplier.

8F. Enhanced Customer Services

In accordance with Section 5F, the Distribution Company and the Basic Service Supplier shall be free to agree in a separate contract to fees and payments for enhanced services for Basic Service Customers.

8G. Summary Billing

The Company may offer a Summary Billing option to Customers who qualify by having multiple electric service accounts. Summary Billing is designed to consolidate multiple individual billings on a single bill format, this optional service allows Customers to pay

multiple accounts with one check.

8H. Existing Distribution Company Fees

Existing Company service fees, such as reconnection and bad check charges, shall remain in effect and shall be assessed, as applicable, according to the Company's Terms and Conditions for Distribution Service, applicable to all Customers.

8I. Fees or Charges by Basic Service Suppliers Prohibited

Basic Service Suppliers shall be prohibited from assessing any charges or interest to Basic Service Customers beyond those specified in these Terms and Conditions.

8J. Charges for and Changes to the Value Added Network

The Distribution Company shall select and may from time to time change the value added network ("VAN") or other electronic transmission vehicle. Notwithstanding the above, the Distribution Company shall not change the VAN or other electronic transmission vehicle without first providing the Basic Service Supplier via Internet electronic mail at least seven days advance notice of any such change. The Basic Service Supplier shall be responsible for the initial testing costs of the VAN and the costs of subsequent transactions.

9. Credit and Collection Activity

The Distribution Company shall be the exclusive agent for credit and collections for Basic Service Suppliers. Basic Service Suppliers shall be prohibited from undertaking any credit or collection activity beyond the activities that the Company undertakes pursuant to the Distribution Service Terms and Conditions. The Basic Service Supplier shall accept any settlements negotiated between the Company and its Customers affecting Basic Service, and shall waive any claims that it may have against the Company. The Company shall be free to agree to payments and settlements with Basic Service Customers for both the Delivery Service and the Basic Service components of the bill. No consent shall be required from the Basic Service Supplier for any such settlement as long as the settlement with the Basic Service Customer applies no greater percentage reduction in Basic Service charges than it does to delivery charges. The Company shall indemnify Basic Service Suppliers for any claims made by Customers associated with credit and collection activity provided pursuant to these Terms and Conditions.

The Distribution Company shall be authorized to terminate Basic Service to Basic

Service Customers if the Distribution Company has terminated such Customer's Distribution Service in accordance with the rules and regulations of the M.D.T.E., including the M.D.T.E.'s billing and termination regulations, until such time as the Customer is reinstated by the Distribution Company. Any disconnected Basic Service whose Distribution Service is restored shall be re-enrolled by the Distribution Company with the Basic Service Supplier that served the Customer prior to disconnection.

The Distribution Company will have the exclusive right to defend against, and will indemnify the Basic Service Supplier, from all claims brought and damages sought by a Basic Service Customer, other than payments for Basic Service, arising out the Distribution Company's collection activities under these Terms and Conditions.

10. Low Income Guarantee

In accordance with M.G.L. c. 164, s 1F (4)(i), applicable regulations, and the EBT Standards, the Distribution Company guarantees payment to the Basic Service Supplier for any failure of a Basic Service Customer served on the Distribution Company's Low Income Tariff, Rate R-2, to pay arrears associated with the Basic Service within two monthly cycles after an account falls into arrears. The Basic Service Supplier shall request reimbursement by submitting a "Request for Low Income Reimbursement Transaction" to the Distribution Company no sooner than two monthly cycles after an account falls into arrears, and no later than two monthly cycles and fifteen days after an account falls into arrears. After the reimbursement has been made, the Basic Service Supplier's receivable balance shall be reduced accordingly.

The Basic Service Supplier shall retain specific records for two years from the date of payment on the guarantee as may be required to support the validity of its requests for payment on the guarantee. The Distribution Company may request the production of such documents to allow for a review of the guaranteed payment process and the Basic Service Supplier's Requests for Low Income Reimbursement Transactions. The Basic Service Supplier shall produce such documents within ten business days of such request. In the event an error is discovered in the guaranteed amount paid to the Basic Service Supplier by the Distribution Company, such error shall be adjusted within thirty days of the determination thereof.

Low Income Customers served under Rate R-2 shall be transferred to Basic Service directly from Standard Offer Service in the event that such transfer benefits such Low Income Customers, and the Basic Service Supplier shall be obligated to provide such Basic Service to the Low Income Customers allocated to the Basic Service Supplier upon their transfer.

11. Determination of Hourly Loads

11A. For each Basic Service Supplier, hourly loads for each day shall be estimated or telemetered and reported daily to the ISO-NE for inclusion in the Basic Service Supplier's Load Asset Calculation. Hourly load estimates for non-telemetered customers will be based upon load profiles developed for each customer class that is provided Basic Service. The total hourly loads will be determined in accordance with the appropriate hourly load for the Distribution Company.

11B. The Distribution Company shall normally report previous days' hourly loads to the ISO-NE by a specified time. These loads shall be included in the Basic Service Supplier's Own Load Calculation.

11C. To refine the estimates of the Basic Service Supplier's loads that result from the estimated hourly loads, a monthly calculation shall be performed to incorporate the most recent customer usage information, which is available after the monthly meter readings are processed.

11D. The hourly loads shall be determined consistent with the following steps:

- (1) The Distribution Company shall identify or develop a load profile for each customer class for use in each day's daily determination of hourly load.
- (2) The Distribution Company shall calculate a usage factor for each Basic Service Customer that reflects the Customer's relative usage level.
- (3) The Distribution Company shall develop estimates of hourly load profiles for the previous day for each Basic Service Supplier such that the sum of the Basic Service Suppliers' loads equals the hourly-metered loads collected each day. Distribution losses, which are included in the hourly-metered Distribution Company loads, shall be fully allocated into Basic Service Suppliers' loads.
- (4) Transmission losses from local network facilities shall be approximated and added to the Basic Service Supplier's hourly loads.

11E. The process of Basic Service Supplier's load estimation involves statistical samples and estimating error. The Distribution Company shall not be responsible for any estimating errors and shall not be liable to the Basic Service Supplier for any costs or

losses that are associated with such estimating errors.

12. Liability and Indemnification

Except as provided in Section 9 and Section 11E of these Terms and Conditions, the Distribution Company and the Basic Service Supplier shall indemnify and hold the other and their respective affiliates, and the directors, officers, employees, and agents of each of them (collectively, "Affiliates") harmless from and against any and all damages, costs (including attorneys' fees), fines, penalties, and liabilities, in tort, contract, or otherwise (collectively, "Liabilities"), resulting from claims of third parties arising, or claimed to have arisen, from the acts or omissions of such party in connection with the performance of its obligations under these Terms and Conditions. The Distribution Company and the Basic Service Supplier shall waive recourse against the other party and its Affiliates for or arising from the non-negligent performance by such other party in connection with the performance of its obligations under these Terms and Conditions.

Effective: [DATE]

Exhibit 2

**BASIC SERVICE SUPPLIER'S TERMS AND CONDITIONS FOR
RETAIL CUSTOMERS**

[Name of Winning Bidder]
Terms and Conditions of Basic Service

[Name of Winning Bidder] is licensed by the Massachusetts Department of Telecommunications and Energy (MDTE) to offer and supply Basic Service in Massachusetts. [Name of Winning Bidder] MDTE license number is _____. “We”, “us” or “our” refers to [Name of Winning Bidder]. “You” or “yours” refers to the customer.

These Terms and Conditions govern your purchase of Basic Service from us. Please keep a copy for your records.

Price: You agree to pay the per kilowatt-hour (kWh) charge for Basic Service for all kWhs delivered to you for the duration of the term of this agreement. You can find this price on Massachusetts Electric’s web site, www.masselectric.com, by clicking on the link to Basic Service. This price does not include any applicable taxes, and is the exclusive and only charge that you will be assessed for generation service. You are also responsible for paying Massachusetts Electric’s distribution and transmission charges.

Term: Basic Service continues until the first meter reading date after you decide to receive generation service directly from us under a separate contract or from another competitive supplier, which you may do at any time at your option.

Billing: You will continue to receive a single bill from Massachusetts Electric that will contain Massachusetts Electric’s charges, our charges, billing terms and conditions and other information required by law. Bills will be due according to Massachusetts Electric’s billing schedule.

Dispute Procedures: Massachusetts Electric is our exclusive agent for resolving billing disputes, and we have agreed to abide by all settlements that Massachusetts Electric makes with you. Contact Massachusetts Electric at 1-800-322-3223 with any questions concerning service. If you are not satisfied after discussing your concerns with Massachusetts Electric, you may contact the Massachusetts Department of Telecommunications and Energy at 1-800-392-6066 or by mail at Department of Telecommunications and Energy, Consumer Division, One South Station, Boston, MA 02110, Attention: Mail-in Complaints.

Limits on Warranty and Damages: You understand and agree that there are no warranties, either express or implied, associated with this offer or the electricity service sold hereunder. We will bear no liability to you or any third party for consequential, punitive, incidental, special or other indirect damages.

Low Income Rate Eligibility: Income-eligible Massachusetts Electric customers may qualify for a discount electric rate, for which a discount is provided on the customer and distribution charges shown on page 1 of your bill. Call Massachusetts Electric for an application and list of eligibility requirements. No discount is available on the Basic Service charges on your bill.

Assignment: We may assign this agreement to another Basic Service Supplier with the consent of Massachusetts Electric and the approval of the MDTE. We will provide you a thirty (30) day notice of any assignment. Any such assignment will not affect these Terms and Conditions.

Exhibit 3

BASIC SERVICE SUPPLIER INFORMATION

Basic Service Supplier must fill this form out completely and return it to Company prior to entering into a contract for services with Company. Failure to fill out this form completely will render Company unable to provide services for Basic Service Supplier

A. General Information (all Basic Service Suppliers)¹

1. Legal name of the Basic Service Supplier _____
2. d.b.a. name, if applicable _____
3. Basic Service Supplier Address _____
4. Type of Business Entity _____
5. Basic Service Supplier Customer Service phone number _____
6. Basic Service Supplier Tax Identification number _____
7. Basic Service Supplier Dun & Bradstreet number _____
8. Name of the Basic Service Supplier's general contact _____
9. Basic Service Supplier's general contact phone number _____
10. Basic Service Supplier's general contact facsimile number _____
11. Basic Service Supplier's general contact e-mail address _____
12. Name of Basic Service Supplier's technical contact _____
13. Basic Service Supplier's technical contact phone number _____
14. Basic Service Supplier's technical contact facsimile number _____
15. Basic Service Supplier's technical contact e-mail address _____
16. Has Basic Service Supplier attended Massachusetts supplier training? _____

¹As of August 31, 1998, the Supplier is entitled to enroll Customers using one Supplier Identifier (currently a single Supplier Dunn & Bradstreet number) and, therefore, both allocate load to one NEPOOL tie line and reference the same Supplier name for all Complete Billing services. The EBT Working Group is exploring the means for enabling suppliers to have more than one Supplier Identifier option. At such time that is feasible, the Supplier may establish additional Supplier Identifiers and/or NEPOOL tie lines consistent with EBT Standards.

17. Has Basic Service Supplier been granted a license by the Department of Telecommunications and Energy? _____ License Number _____

B. Billing and Banking Information

1. If the Basic Service Supplier is planning to assign its own account number, provide format and size _____
2. Name of receiving bank (to accept electronic transfer of customer payments) _____
3. Routing and transit number (ABA number) _____
4. Bank account number _____

C. Value Added Network (VAN)

1. Name of VAN Supplier _____
2. ISA Qualifier _____
3. ISA ID _____
4. GS Identifier _____

D. Establishment of ISO Load Asset ID

1. Name of the NEPOOL Participant in whose NEPOOL Own Load Dispatch the Basic Service Supplier's load will be served _____
2. Own Load Number (if available) _____
3. Basic Service Supplier contact Name _____
4. Basic Service Supplier contact phone number _____
5. Basic Service Supplier contact facsimile number _____
6. Basic Service Supplier contact e-mail address _____
7. Estimated Load Transfer (KW Demand) _____
8. Estimated Transfer Date (mo/day/year) _____

E. Basic Service Supplier Load Allocation, if requested

1. Check to receive load estimation results _____ Yes _____ No
2. Basic Service Supplier contact name _____

Exhibit B, p. 5

3. Basic Service Supplier contact phone number_____
4. Basic Service Supplier contact e-mail address_____

F. Notices to Basic Service Supplier shall go to:

Name:_____

Address:_____

Phone Number:_____

Facsimile Number:_____

Electronic Mail:_____

Authorized Signature:_____

Title:_____

Date:_____